

37<sup>th</sup> ANNUAL  
SECURITIES AND EXCHANGE COMMISSION  
GOVERNMENT-BUSINESS FORUM ON  
SMALL BUSINESS CAPITAL FORMATION

RECORD OF PROCEEDINGS

December 12, 2018

9:00 a.m. - 12:30 p.m.

The Ohio State University

The Fawcett Center

2400 Olentangy River Road

Columbus, Ohio

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1        **PROCEEDINGS**

2        MS. ZEPRALKA: Good morning. We're  
3 going to get started. Thank you, everyone.  
4 We're pleased to welcome everyone to  
5 the annual Small Business Forum. My name is  
6 Jennifer Zepralka. I'm the Chief of the Office  
7 of Small Business Policy at the SEC Division of  
8 Corporation Finance.

9        This is my first forum since I have  
10 rejoined the Commission this summer, and we are  
11 delighted that this year we've been able to  
12 bring the forum to Columbus. I want to start  
13 out with a particular thank you to our host,  
14 the National Center for the Middle Market, The  
15 Max. M. Fisher College of Business and the  
16 Fawcett Center, who worked so hard to make this  
17 event happen.

18       I also need to thank my colleagues on  
19 the SEC staff for their hard work in bringing  
20 this show on the road.

21       Before we begin the program today, I  
22 need to provide the standard SEC disclaimer, on  
23 behalf of all the people from the SEC who are  
24 speaking today. The views expressed today may  
25 or may not represent the views of the

1 Commission or our colleagues on the staff.

2 And now I would like to introduce

3 Dean Makhija to get us started this morning.

4 Dean Makhija is the ninth dean of the Max M.

5 Fisher College Business here at Ohio State.

6 Among his many accomplishments, he plays a key

7 role in the development of the National Center

8 for the Middle Market at Fisher.

9 His resume along with the bios of the

10 SEC Chairman and other Commissioners are

11 available in the program, so I'm not going to

12 spend a long time reading Dean Makhija's very

13 impressive bio, so I would like to just welcome

14 you, Dean, to the podium to get us started.

15 MR. MAKHIJA: Good morning, and

16 welcome to the Government Business Forum on

17 Small Business Capital Formations, and thank

18 you, Jennifer, for that introduction.

19 On behalf of the entire Fisher and

20 Ohio State community, I'm delighted to see so

21 many members of the business community here

22 with us today to take part in what we hope will

23 be a productive, informative, and engaging

24 event.

25 First, I want to take this

1 opportunity to recognize our friends at the SEC  
2 with whom our own, very own National Center for  
3 the Middle Market has partnered for today's  
4 event.

5       Indeed, it is worth noting that this  
6 forum is special, not only for our college, our  
7 university, and the business community, but  
8 also for the SEC. You see, for the past 38  
9 years, the organization has hosted this annual  
10 meeting which connects industry and government  
11 to improve small business capital formation,  
12 but in the nearly 40-year history of the forum,  
13 today is just the second time that  
14 this gathering has been held outside of  
15 Washington, D.C.

16       Last year, our friends at the  
17 University of Texas were the first outside  
18 host. Surely, it will be a bigger, better  
19 event here, though I am told everything is big  
20 in Texas.

21       Today it's Ohio State's turn, and we  
22 are honored to have been chosen to facilitate  
23 this important discussion. Joining us today  
24 from the SEC are Chairman of the SEC, Jay  
25 Clayton, SEC Commissioners, Robert Jackson,

1 Jr., Hester Peirce, and Elad Roisman, and SEC  
2 Director of the Division of Corporate Finance,  
3 William Hinman. Thanks for all of you for  
4 joining us.

5 Events such as today serve as often  
6 reminders of the impact academic institutions  
7 such as Fisher are having on business in a  
8 number of ways. A ten-minute walk from here  
9 puts you in the heart of Fisher's campus, where  
10 our classrooms and labs are full of nearly  
11 8,500 undergrad and graduate business students.  
12 We might well be one of the largest business  
13 schools in the country.

14 This is a future workforce brimming  
15 with emerging stars, students whose Ohio State  
16 education has equipped them to lead in every  
17 industry imaginable.

18 Part of our college's mission is to  
19 advance business to relevant and impactful  
20 research. And our co-host today, the National  
21 Center for the Middle Market, is a perfect  
22 example of the symbolic partnership that can  
23 flourish between academia and corporate  
24 business.

25 From its quarterly middle market

1 indicator, to research products exploring  
2 topics including the impact of terms and  
3 digital transformation on middle market  
4 companies, we are bringing research out of  
5 academic journals, putting them in the hands of  
6 practitioners and shaping the way business is  
7 conducted.

8       Finally, as part of the land grant  
9 institution dedicated to elevating and  
10 advancing Ohio as a source of solution for the  
11 most important national issues of their day,  
12 our college is committed to engaging and  
13 fostering conversations with industry and  
14 government to promote healthy, sustainable,  
15 business growth.

16       So with these reasons in mind, it  
17 made complete sense for the National Center for  
18 the Middle Market to partner with the SEC and  
19 bring this government business forum here to  
20 Fisher and Ohio State.

21       Moreover, today's partnership between  
22 the SEC and the National Center for the Middle  
23 Market is a meeting ground of common interests.  
24 There is a large overlap between SEC's small  
25 firms sample and the Center's middle market

1 firms. You see, the Center defines the middle  
2 market firms of revenues from 10 million  
3 to 1 billion. That's only about  
4 three percent of all firms in number, but they  
5 represent about one-third of private sector  
6 jobs and about one-third of nongovernment GDP.  
7 Yet we know very little about this important  
8 sector of the economy.

9       Why? Because about 85 percent of  
10 these firms are privately held. Data and  
11 studies about them are scarce.

12       So the center steps in, conducts a  
13 quarterly survey of 1,000 middle market  
14 managers. It undertakes many topical studies,  
15 like on the sources and costs of capital for  
16 such firms, and, of course, conducts many of  
17 the activities, particularly on outreach to  
18 middle market firms.

19       And today, the National Center for  
20 the Middle Market has partnered with the SEC on  
21 the forum on small business capital formation.

22       Thus, I hope our commitment to  
23 shaping agile leaders, conducting real and  
24 relevant research, and forging mutually  
25 beneficial partnerships with startups in local

1 businesses will complement today's conversation  
2 about how we can improve small business capital  
3 formation.

4 I encourage you to take full  
5 advantage of this important opportunity to  
6 address specific challenges in your industries  
7 and to provide valuable input that will shape  
8 and improve the small business regulatory  
9 system as well. Thank you.

10 Now it is my pleasure to introduce  
11 William H. Hinman, Director of the SEC Division  
12 of Corporation Finance. Thank you.

13 MR. HINMAN: Well, first of all,  
14 thank you very much, Dean, for having us here  
15 at the National Center for the Middle Market at  
16 The Ohio State University. It's a great  
17 setting for a forum that you provided today.  
18 It's good for me to be back in the Big 10. I  
19 was a graduate of Michigan State, and so I have  
20 a few things in common with the folks here at  
21 Ohio State. We very much appreciate the 62  
22 points, I think it was, that you put up on  
23 Michigan this year. I love watching that game  
24 and imagine many here did as well, and we also  
25 are looking forward to the basketball season.

1        So let me also acknowledge the  
2 efforts that our staff has put into today's  
3 event. The Division's Office of Small Business  
4 Policy has worked very hard at putting this  
5 forum together. It's not an easy thing to do,  
6 and we greatly appreciate the efforts that they  
7 have put in.

8        This year, we are also joined by our  
9 Office of Minority and Women Inclusion. They've  
10 pulled together a perfect panel on diversity  
11 and capital formation. We're looking forward  
12 to that. And let me appreciate and thank all  
13 of our panelists here for sharing their  
14 experiences and your time. We will greatly  
15 benefit from the discussion we're about to  
16 have. We greatly benefit when we do this  
17 outside of Washington, D.C.

18        As the Dean mentioned, we did this  
19 last year in Austin, Texas. We found that very  
20 valuable. I think it's terrific to get  
21 insights from people outside of DC. This is a  
22 really good way to do it, so, again, thank you  
23 for hosting us here.

24        I also want to thank the Chairman and  
25 his fellow Commissioners who showed up here

1 today. I thank the level of interest that the  
2 agency in general in supporting small business  
3 and capital formation for small businesses is  
4 evident in having four of the five  
5 Commissioners here with us today who made the  
6 trip, and they'll have some brief remarks  
7 shortly.

8       Let me give you a little bit more  
9 background on them. I won't go into the more  
10 formal bios that you sometimes hear. I kind of  
11 try to extract some things from each of their  
12 experiences that I think is relevant to  
13 understanding their appreciation for small  
14 business and its importance.

15       We'll hear next from Chairman  
16 Clayton, but let me start with Commissioner  
17 Robert Jackson and then go down the line, and  
18 then turn it over and we'll hear their remarks.

19       Commissioner Robert Jackson is coming  
20 up on his one-year anniversary with the  
21 Commission, having joined us in this January of  
22 this year. Before that, he was a professor of  
23 law at NYU and Columbia. He's done some amazing  
24 work in academia, but what I wanted to share  
25 with you is Rob was born in the Bronx.

1        His mother was one of nine children.

2    His father was one of five, and I think his  
3    appreciation for the value of industry and hard  
4    work started there.

5        When Rob was born, his dad was  
6    working as an accounting clerk at a small  
7    encyclopedia company. You might remember it  
8    from Laugh-In, if any of you go back that far,  
9    where they talk about Funk & Wagnall's. That's  
10   where Rob's dad worked.

11       His mom had several part-time jobs,  
12   including the early shift at Dunkin' Donuts.  
13   They worked hard, and they had fruits in their  
14   labors, and it changed their lives. Rob's dad  
15   retired as the chief accounting officer of a  
16   public company, and after her Dunkin' Donuts  
17   stint, Rob's mom obtained her teaching degree  
18   and has been teaching elementary school for  
19   nearly 30 years. We'll hear more about that  
20   maybe from Rob later.

21       Commissioner Hester Peirce will speak after  
22   Rob. She also joined the Commission in January  
23   of this year. This is her second tour of duty  
24   at the Commission. She served earlier as  
25   counsel -- a number of roles, including counsel

1 to Commissioner Atkins.

2 She has done a number of interesting  
3 things in academia as well and was recently a  
4 senior research fellow and director of the  
5 financial department's working group at the  
6 Mercatus Center at George Mason University.

7 Her research explored how markets can  
8 foster economic growth and prosperity and the  
9 importance of well-designed regulations. One of  
10 the more enjoyable aspects of my job is that I  
11 get to frequently meet with Commissioner Peirce  
12 and talk about the effects of our regulations,  
13 and she has impressed on me her great empathy  
14 and genuine care about the regulated entities.

15 She has a great insight to how  
16 smaller companies in particular are affected by  
17 regulation, and I always learn something in  
18 that process, and I appreciate that.

19 Hester is a native Ohioan, earning  
20 her BA in economics from Case Western, so she  
21 undoubtedly feels at home here in the winter  
22 weather, and she also appreciates the value of  
23 capital formation away from the coast, where  
24 oftentimes VCs and some of the smaller business  
25 advisors are overlooking the opportunities

1 here. It's one of the things we want to bring  
2 attention to.

3       After Hester, we'll hear from  
4 Commissioner Elad Roisman. Elad is our newest  
5 Commissioner. Prior to joining us, he has  
6 served as Chief Counsel for the U.S. Senate  
7 Committee on Banking, Housing & Urban Affairs,  
8 and prior to that, he had worked at the  
9 Commission as counsel for Commissioner Dan  
10 Gallagher.

11       Before joining the Commission, he was  
12 an associate at a law firm in New York, Milbank  
13 & McCloy, and he served as Chief Counsel to the  
14 New York Stock Exchange group. And I think  
15 there at the NYSE, Elad shared with me how  
16 impressed he was with the excitement and pride  
17 that entrepreneurs who got to ring the bell at  
18 the NYSE felt about getting their companies to  
19 that stage of accomplishment.

20       Elad is the son of two immigrants,  
21 has a deep appreciation as a result of, you  
22 know, being in that family, of how small  
23 businesses can grow, invest in our communities  
24 and provide jobs for workers and returns to  
25 their investors.

1 I have something on you here, Jay.  
2 Let me find it. Chairman Clayton, you were  
3 going to fill it in? Chairman Clayton, before  
4 joining the Commission in May of '17 also was  
5 working in New York and also at a large law  
6 firm. Worked on a lot of really big deals,  
7 large corporate matters, governance M&A, and  
8 while Jay professionally worked on large  
9 complex matters, I think some of his important  
10 roots go back to his experience as a young man  
11 in Pennsylvania.

12 When he was growing up, Jay's dad  
13 went to Vietnam to serve his country, and Jay's  
14 mother moved the family in with her parents.  
15 Jay's grandfather, who was a lawyer in this  
16 small town, took a strong interest in Jay, took  
17 him to closings, town halls, business meetings  
18 that he would be going to to share that  
19 experience with Jay, and I think that's where  
20 Jay started to get his sense of what small  
21 businesses can do for communities and their  
22 importance to those communities in which  
23 they're operating. He's carried that with him.

24 We at the Commission appreciate the  
25 emphasis he places on Main Street

1 investors. That's a phrase you'll often hear  
2 Jay talking about, and I think that comes from  
3 this experience where he undoubtedly had his  
4 values formed at the side of his grandfather.

5 Let me turn it over to Jay, and then  
6 we'll here from the other Commissioners as  
7 well.

8 CHAIRMAN CLAYTON: Thank you, Bill.  
9 Thanks very much. And, Jennifer, thank you as  
10 well, and thanks to the Dean. It's wonderful  
11 to be here today. I want to say my prepared  
12 remarks will be posted and that usually makes my  
13 staff nervous. I'll deviate from that.

14 I want to thank The Ohio State  
15 University and  
16 Fisher College of Business for opening their  
17 doors to us. It's nice to know that the SEC  
18 can get such a warm welcome in the Big 10. The benefit of going first you  
19 get to steal those lights.

20 Finally, I want to thank the  
21 panelists and moderators for taking time out of  
22 their busy schedule to be with us and share  
23 your insights with us.

24 To those of you in the audience or  
25 watching online, this is the 37th Annual, as

1 Bill mentioned, Government Business Forum on  
2 Small Business Capital Formation, and it's the  
3 second year in a row that we've been outside of  
4 Washington, D.C. I hope that that trend  
5 continues.

6 Small business access to capital is  
7 front of line to us at the SEC, and we've made  
8 it a priority to reach out to small businesses  
9 nationwide. Since I've been at the Commission,  
10 we've hosted a group of small businesses from  
11 across the country, including Arkansas, Idaho,  
12 Michigan, Montana, and North Carolina.

13 Bill and I also attended a high-tech  
14 job summit in Montana to discuss job creation  
15 and capital formation. Last November, we held  
16 the Small Business Forum in Austin, as was  
17 mentioned. I did not do the Texas/Ohio State  
18 record over the years -- how many times -- did  
19 somebody Google how many times Texas has played  
20 Ohio State? Is it a good news or bad news  
21 story? It's a good news story? Okay. It's  
22 mixed, like the market.

23 Earlier this year, we continued our  
24 conversation about small business capital  
25 formation in Nashville, Tennessee. As I've

1 said before, there are many good, talented  
2 people and many promising companies between the  
3 coasts. Austin, Nashville and Columbus all  
4 share something in common. They stand out for  
5 their ability to help small businesses grow  
6 outside of traditional areas along the coast.

7 Earlier this year, Columbus was  
8 ranked as one of the top five cities for  
9 entrepreneurs and startups out of more than 300  
10 cities across the United States. And this past  
11 October, another publication ranked Columbus  
12 first out of the top ten rising cities for  
13 startups.

14 The panelists this morning will  
15 provide us with an opportunity to hear directly  
16 from small businesses and their investors about  
17 the options to raise capital as small  
18 businesses.

19 We also will hear about the  
20 particular challenges faced by minority  
21 entrepreneurs to access capital.

22 Following the morning panels, you  
23 will work on recommendations on how we can  
24 improve the regulatory landscape for small  
25 businesses.

1        Now, my prepared remarks, I have a  
2   number of initiatives that we're considering at  
3   the SEC to facilitate capital formation,  
4   particularly for small businesses. I will  
5   refer you to those prepared remarks that will  
6   be posted online, but I want to end with  
7   another personal anecdote, and it actually goes  
8   to my wife's family.

9        My wife's mother and father are both  
10   graduates of Ohio Wesleyan close by, and my  
11   father-in-law is a graduate of the business  
12   school in the form it was then here at Ohio  
13   State.

14       I watched him operate a small and  
15   medium-sized business for many years with great  
16   enjoyment and success, and so all of us are  
17   thankful to The Ohio State University for the  
18   education he received.

19       And with that anecdote, I'll turn it  
20   over to my fellow commissioners.

21       COMMISSIONER JACKSON: Well, thank  
22   you very much, Mr. Chairman. I'm delighted to  
23   be here. I want to start by joining my  
24   colleagues in thanking Director Hinman, the  
25   staff and all the panelists for the time you're

1 sharing with us this morning.  
2 I want to also start by emphasizing  
3 how delighted I am to be back here at the  
4 Middle Market Institute. I came out to The  
5 Ohio State University earlier in the spring to  
6 talk about some of the capital formation and  
7 issues that small and medium-sized businesses  
8 face when they seek to go public, and I'm very  
9 much looking forward to learning more from you  
10 all today.

11 I also want to be among the first to  
12 welcome my friend and colleague Commissioner  
13 Peirce back to her home state, here in Ohio.  
14 And I'll be brief; my colleagues, they have more to  
15 say, but really, we're all here to hear from  
16 you today about the experience you're having  
17 raising capital in the economy we face.

18 I want to make just two very quick  
19 points about that. The first is I want to  
20 express my gratitude to the folks at the Middle  
21 Market Institute whose research has informed my  
22 thinking a great deal about the importance of  
23 the form to the growth of our economy. It's  
24 very easy in the world in which we live to get  
25 caught up in headlines about big, public

1 companies, but what the Middle Market Institute  
2 research shows is that the driving engine, the  
3 force behind our economy, is made up of these firms  
4 that are many small, growing companies  
5 throughout the United States, and as the  
6 Chairman pointed out, very much between the  
7 coasts.

8       You have a division -- a Division of  
9 Corporation Finance and a group of folks from  
10 the SEC today who understand that very much,  
11 and we are very keen to hear from all of you  
12 today as to how we can help you create the jobs  
13 and continue to be the engine that you've been  
14 for so long for the growth of our economy.

15       For a second, Director Hinman's  
16 remarks pointed up to the fact that all of us  
17 in our own way come to this table and this  
18 conversation understanding how hard it is to  
19 start something new in this country, to put  
20 capital together, persuade customers and  
21 employees of the value proposition that you  
22 have, to sketch out a vision, even for a  
23 company that's existed for some time, to get  
24 people around you to buy into that vision. We  
25 understand how hard that it is and how

1 important it is, not only to the economy, but  
2 also to the communities across America, and  
3 that's why we're here.

4 That's why you have a Commission so  
5 interested in hearing from all of you today.  
6 That's why we're so engaged, not just because  
7 we think it's important to capital formation in  
8 our economy. We think that, but because we  
9 know how important it is to the community and  
10 the individuals in this room to make sure that  
11 you feel that your government and the folks who  
12 work for it care about how hard it is,  
13 understand how challenging it can be to grow a  
14 company in this economy.

15 So we're here to hear from you. I'll  
16 defer to my colleagues on further introductory  
17 remarks, but I want to say how much I  
18 appreciate the opportunity to hear from all of  
19 you about how we can help you do the important  
20 work you do to grow this economy in this  
21 country. Thank you.

22 COMMISSIONER PEIRCE: Thank you to  
23 The Ohio State University, the Fisher College  
24 of Business, and the Center for Middle Markets  
25 for having us here today. Thank you to the

1 staff for putting together this roundtable, and  
2 most of all, thank you to the panelists who are  
3 willing to take your time to share your  
4 insights with us. I realize that your time is  
5 valuable, and it's valuable to us as well.

6       Anyone who has heard me speak knows  
7 that there are two things that are especially  
8 dear to my heart. One is capital formation,  
9 and the second is the Midwest, especially Ohio,  
10 and it's therefore an especially happy occasion  
11 for me to be here today in Ohio to talk about  
12 capital formation.

13       When it comes to capital formation, I  
14 do worry that too much emphasis happens, that  
15 the focus is often too narrow. Capital  
16 formation and small business capital formation  
17 in particular concerns a broad array of  
18 companies across every state in our country,  
19 but oftentimes, the policy discussions proceed  
20 as the only market participants are tax  
21 startups, based in a few hubs on the coast, and  
22 the early stage investors who are also based in  
23 those same coastal cities.

24       These companies indeed do need access  
25 to capital, and it's important that we set up a

1 regulatory framework so they can get access to  
2 capital, but one of the defining features of  
3 small businesses is their lack of uniformity.  
4 In a word, their diversity.

5       The category of small business  
6 includes companies with one employee and  
7 companies with many, many more employees. It  
8 includes companies with big, public company  
9 aspirations and companies that will always be  
10 small and don't intend to be anything other  
11 than small.

12       It includes brand-new startups that  
13 combine the talents and dreams of college  
14 friends, and it includes companies that are  
15 built and passed down through the generations  
16 of a family.

17       It also includes companies in Silicon  
18 Valley and companies here in Columbus, Ohio.  
19 These companies are all providing valuable  
20 goods and services and creating jobs and  
21 building our communities across the whole  
22 nation.

23       We at the SEC have the challenge of  
24 ensuring that capital markets are free to  
25 provide the funding that small companies need

1 in ways that make the funding accessible to  
2 companies without fancy lawyers or rich  
3 networks of friends.  
4 I look forward to hearing from our  
5 panelists today to hear what they think that we  
6 can do on these issues. I'm especially  
7 interested in hearing how we can make our  
8 regulatory framework more easy to navigate for  
9 small companies. Our offering exemptions,  
10 which is what most smaller companies tend to  
11 use when they're raising capital, are a complex  
12 patchwork of regulations that's often very  
13 difficult to figure out, especially for the  
14 nonlawyer.

15 So what can we do to rationalize this  
16 web, to make a clearer path for companies to  
17 follow with fewer traps for well-intentioned  
18 entrepreneurs? What are the particular  
19 challenges that companies here in Ohio face?  
20 What parts of our regulations reinforce the  
21 concentration of startups in a few hubs on the  
22 coasts?

23 I don't doubt that there are smart,  
24 inventive people in Silicon Valley. In fact, I  
25 know that there are, but I also know that there

1 are lots of smart, inventive people right here  
2 in Ohio and across the Midwest.  
3 Indeed, in the late 1800s and early  
4 1900s, Ohio was home to the then Silicon Valley  
5 of the country. At that time, successful  
6 businesses became essentially an innovation  
7 hub, around which other entrepreneurs gathered  
8 and then built their own businesses, so we  
9 can't forget that history, and I think it's one  
10 that we can recapture here in Ohio.

11 That entrepreneurial spirit, in fact,  
12 lives on in many great businesses in this  
13 state, and I want to make sure that the money  
14 can flow to those business without requiring  
15 them to go for funding outside of Ohio, which  
16 often means moving outside of Ohio, as well.  
17 Our capital markets should be a resource for  
18 people in every corner of the country.

19 For companies that are already public  
20 or are considering an IPO, which parts of our  
21 regulatory framework give you the most  
22 headaches? Which parts, especially, make you  
23 question the wisdom of going public?

24 There's been discussion about the  
25 impact of Section 404(b) of Sarbanes-Oxley, which

1 requires an external auditor attestation of  
2 internal controls. Is this a stumbling block  
3 for you? Which other parts of our disclosure  
4 regime and requirements present serious  
5 difficulties for smaller filers?

6       What roles or concerns about  
7 litigation or pressure to focus on short-term  
8 performance or an in-house market structure  
9 play in making the public market seem a  
10 perilous place to venture?

11       Since the purpose of this forum is to  
12 provide us a listening opportunity, I'm going  
13 to stop talking, but, again, I want to thank  
14 all of you for being here today.

15       COMMISSIONER ROISMAN: Good morning.  
16 I'm excited to attend my first Forum on Small  
17 Business Capital Formation as a Commissioner.  
18 I'm even more excited that we're again holding  
19 a forum outside of DC and especially here at  
20 the National Center for Middle Markets at The  
21 Ohio State University.

22       I had a Big 10 -- a SEC joke, but it  
23 seems -- events like these are important to  
24 inform people about the role of the Securities  
25 and Exchange Commission and how serious all of

1 us who work there take our mission. A critical  
2 component of this mission is capital formation.  
3 Small business is the lifeblood of America, so  
4 it's only fitting that we are here today in  
5 America's heartland to discuss how we can  
6 improve capital formation for small businesses.

7       My wife and several friends of mine  
8 started their own businesses, pouring time,  
9 energy, and passion into this work. I've seen  
10 them all struggle, and I've seen them both fail  
11 and succeed. Their experiences have always  
12 inspired me and made me appreciate incredible  
13 investments entrepreneurs put into their work  
14 every single day. They also remind me of how  
15 unique this country is in offering such  
16 opportunities.

17       It's the SEC's responsibility to  
18 constantly engage with those who participate in  
19 or want to participate in our markets, and to  
20 help facilitate capital formation. I think of  
21 the entrepreneurs wondering how to raise money  
22 to grow their businesses. I want those people  
23 to know that we are doing our best to ensure  
24 that the capital markets are accessible to  
25 them.

1 I also want investors to have the  
2 opportunity to invest in small businesses at an  
3 early stage of growth. Investor protection  
4 isn't only the notion of keeping things away  
5 from investors, but ensuring that they have an  
6 array of investment choices, as well as  
7 material information available for them to  
8 consider in decision-making.

9 Both panels today on capital  
10 formation are important, and I look forward to  
11 learning more from our speakers. I hope the  
12 discussions today will address the full scope of  
13 the public markets, as well as the private  
14 markets.

15 I believe a fully robust capital  
16 market ecosystem for small businesses requires  
17 both, and I don't want to take any more time  
18 away from what I'm confident will be a great  
19 discussion, but I do want to thank Bill Hinman,  
20 Jennifer Zepralka and the staff of the Division  
21 of Corporation and Finance and the Office of  
22 Minority and Woman Inclusion for all of your  
23 hard work in organizing this event.

24 Most importantly, thank you to the  
25 Fisher School of Business, our panelists, the

1 people of Ohio, and those who have traveled to  
2 be here today. I look forward to hearing your  
3 thoughts on the important topics on today's  
4 agenda.

5 MS. ZEPRALKA: Thank you. Thank you  
6 so much. So we're a little bit ahead of  
7 schedule, but that's great. It gives us more  
8 time for the panel. We're going to move right  
9 into the first panel now.

10 As the Chairman mentioned, we're  
11 fortunate to have two excellent panels this  
12 morning. Our first panel, which is going to  
13 start in a second, is going to discuss how  
14 capital formation options are working for small  
15 businesses with a focus on companies in the  
16 Midwest.

17 And then our second panel, which has  
18 been coordinated by our Office of Minority and  
19 Women Inclusion, is going to focus on the  
20 issues of diversity in capital formation. We're  
21 looking forward to both of them.

22 A couple of housekeeping matters,  
23 Bill and I are going to be moderating this  
24 first panel. John Moses from the Office of  
25 Minority and Inclusion will come up to moderate

1 the second panel, but we're more than happy to  
2 get questions from the audience as well.

3 In your forum program, for those in  
4 the room, there should be an index card. If  
5 you have any questions, we encourage you to  
6 write them down, and my colleagues Tony and  
7 Julie from the SEC are here, so raise your  
8 hand. They'll come get your index card and  
9 bring it up to here to me so we can answer your  
10 questions.

11 For those of you watching the webcast  
12 over the internet, if you e-mail questions to  
13 Tony Barone at BaroneA@sec.gov, and Tony  
14 will bring those questions to my attention so  
15 we can ask them of the panelists as well.

16 We are privileged to have an  
17 outstanding panel this morning with experts  
18 from across the spectrum in areas relating to  
19 capital formation. Their full bios are in the  
20 program, but I would like for each of them to  
21 take a few seconds to just introduce  
22 themselves.

23 Mike, we'll start with you.

24 MR. PIECIAK: Thank you so much,  
25 Jennifer. I'm Mike Pieciak. I'm the

1 Commissioner of the Vermont Department of  
2 Financial Regulations. The Vermont Department,  
3 we regulate the securities industry, the  
4 insurance, and the banking industry. I'm also  
5 the president of North American Securities  
6 Administrator's Association, or NASAA, as  
7 representing the 51 jurisdictions in the United  
8 States, plus Canada, from a securities law  
9 perspective.

10 MR. HARTEN: My name is Peter Harten.  
11 I'm the operations manager at GoSun,  
12 Incorporated. I did want to take a second and  
13 say that GoSun is based in Cincinnati, although  
14 based on the performance of Pinnacle condos,  
15 because I don't mind claiming Cleveland, GoSun  
16 is the manufacturer of high efficiency solar  
17 products with a concentration on cooking  
18 products. I've been there for around three and  
19 a half years. I'm in the early stages of our  
20 Kickstarter crowdfunded products to the  
21 formation and assisting in the crowdfunding  
22 equity campaign.

23 I'm a member of the Cintrifuse  
24 community in Cincinnati. It's an innovation  
25 community based there.

1       Also, I was on the Home Shopping  
2 Network and American Dream Academy Symposium  
3 Panel. Thank you.

4       MS. PICKER: Hello. My name is Eve  
5 Picker. I'm the founder and CEO of Small  
6 Change, which is a real estate equity  
7 crowdfunding platform, and we help issuers also  
8 raise money through both Regulation  
9 Crowdfunding and Regulation D 506(c), sometimes  
10 separately. Sometimes side by side.

11       Oh, and, unfortunately, we're in  
12 Pittsburgh, Pennsylvania.

13       MS. MOTT: Good morning. I'm  
14 Catherine Mott. I'm the founder of BlueTree  
15 Allied Angels and the BlueTree Venture Fund in  
16 Pittsburgh, Pennsylvania, and, by the way, we  
17 consider ourselves Midwest, not East Coast. And  
18 a lot of characteristics that apply to the  
19 Midwest apply to us, and we invest across the  
20 Midwest.

21       We have about \$50 million under  
22 management. I'm also former Chairman of the  
23 Angel Path Association. That is the trade  
24 support organization for professionally managed  
25 angel birds. And I'm a former member of the

1 SEC Advisory Council on Small and Emerging  
2 Companies.

3 MR. EMBREE: Good morning. I'm Wayne  
4 Embree, Executive Vice president of Rev1  
5 Ventures, here in Columbus. We're a C stage  
6 investor and startup studio, working with a  
7 large number of early stage entrepreneurs and  
8 companies in the region.

9 And in addition to the work that we  
10 do with startups, we also collaborate with a  
11 number of the major corporations, their  
12 innovation strategies, specifically as it  
13 relates to early stage companies, and we help  
14 OSU, Nationwide Children's, and Ohio Health  
15 spin out a large number of companies every  
16 year.

17 MR. SHANE: Good morning. I'm Scott  
18 Shane. I am the Mixon Professor of  
19 Entrepreneurial Studies at the Weatherhead  
20 School of Case Western Reserve University, and  
21 I'm also the managing director of Comeback  
22 Capital, which is a new pre-seed and stage  
23 venture firm that pools coastal investment  
24 money and Midwestern capital for the purpose of  
25 investing in startups in the Midwest.

1 MR. SEAMON: Good morning. I'm Aaron  
2 Seamon. I'm with the law firm Squire, Patton &  
3 Boggs. I'm based here in Columbus, but my  
4 practice really focuses on capital markets,  
5 capital formation, SEC compliance, and  
6 corporate governance for both companies,  
7 underwriters, and sources of capital.

8 So as one of the folks from Columbus  
9 on this panel, I would like to say welcome, and  
10 you're always welcome back, especially on  
11 Saturdays when, in the fall, there's a few  
12 hundred thousand people in this area, so it can  
13 be very crowded. Thank you.

14 MR. PLOURDE: Hi. Jason Plourde. I'm  
15 a partner in our National Professional  
16 Standards Group at Grant Thornton. We're proud  
17 to provide a lot of audits and other services  
18 to middle market companies in the Midwest. So  
19 I deal a lot with audit quality and periodic  
20 filings for smaller reporting companies.  
21 Emerging growth companies is really the bread  
22 and butter of our practice, and I also spent  
23 two years at the SEC in the Chief Accountant's  
24 Office as well.

25 MS. ZEPRALKA: Okay. Great. Thank

1 you. So I think we'll launch right into the  
2 discussion. We're hoping that this will be  
3 interactive amongst the panel as well, so I've  
4 already explained how we're going to take  
5 questions from the audience.

6 But for you all, if you want to  
7 respond to each other, if you could tip up your  
8 name tags, because we need to get the  
9 microphones turned on if you're going to speak.  
10 Thank you.

11 All right. We're going to start with  
12 Mike. We're going in the same order again. A  
13 couple of topics I was hoping you could address.

14 Mike, in 2015, as a lot of people  
15 here will know, we -- the Commission amended  
16 Regulation A, which Dan gave mention, for  
17 offers up to \$50 million. There are two tiers.  
18 Tier 1 is up to \$20 million annually, and Tier  
19 2 is \$50 million annually.

20 That Exemption includes a process  
21 where a company prepares an offering document  
22 that's reviewed by the SEC staff. Tier one  
23 offerings are also subject to state review, so  
24 I was hoping you could comment on what you're  
25 seeing in the Tier 1 regulation space and any

1 particular areas of concern that you're  
2 identifying.

3 MR. PIECIAK: Yeah. Well, and thank  
4 you so much again, Jennifer. And just, again,  
5 a word of thanks to the SEC for inviting the  
6 state participation to this forum again this  
7 year. We certainly appreciate it. I think  
8 it's important to hear from a state regulator's  
9 perspective where, obviously, outside of some  
10 of the major metropolitan areas on the east and  
11 west coast, we cover every part of the country  
12 and hear stories of both good and bad from all  
13 the entities that we regulate, so I certainly  
14 appreciate the opportunity to be here.

15 So relating to Regulation A  
16 certainly, since 2015, I think the number of  
17 filings that we've anticipated or that we've  
18 seen maybe not as high as some expected,  
19 particularly in the Tier 1 space, which is the  
20 space that the states continue to regulate.

21 In the Tier 1 space, there has been  
22 some additional, you know, filings in terms of  
23 the volume and the number of filings. And then  
24 we've also seen Tier 2 companies that have  
25 filed that haven't raised or haven't thought to

1 raise \$20 million, so that they've actually  
2 tried to go to Tier 2 when they're not raising  
3 up to the \$20 million, which, of course, is how  
4 language reads.

5       So an effort that the states did,  
6 however, on the Tier 1 front was an attempt to  
7 coordinate ourselves in a way that made capital  
8 raising more efficient for companies, whether  
9 they wanted to raise money on a regional basis  
10 or whether they want to raise money on a  
11 50-state basis.

12       Andrea, who is in the audience, the  
13 Ohio Securities Commissioner, led that  
14 effort to pass coordinator review in 2015 and  
15 2016, and it really is a good program. I mean,  
16 I think I want to make sure that I brought it up  
17 here and ask folks to think about it and to  
18 explore it that either have clients here or are  
19 themselves thinking about raising capital.

20       Because what that program does  
21 essentially is put the onus on the state  
22 regulator to coordinate with each other to get  
23 your filing, your offering cleared in the  
24 various jurisdictions.

25       I think it makes all the sense in the

1 world that we as state regulators know each  
2 other very well. We communicate with each  
3 other. We see each other on regular occasions,  
4 so it certainly makes sense that we would be  
5 the ones coordinating with each other behind  
6 the scenes and not that the issuer has to go to  
7 15 different states or 20 different states or  
8 50 different states to make sure that they don't get  
9 15 different letters that maybe don't  
10 correspond to each other.

11       So I think this is an important  
12 program that the states have rolled out. We  
13 have had successful offerings that have rolled out.  
14 We have had successful offerings through  
15 coordinator review. Again, I would hope that  
16 we would have more. I think it's an attractive  
17 option for companies. There's a defined  
18 timeline as well for folks that file so that  
19 they know when they're going to get comments.  
20 They can plan that out, in terms of when they  
21 can respond to those -- when they can expect  
22 comments, and then when they can plan to  
23 respond to those comments.

24       So, again, I think something that's  
25 very important for small businesses in terms of

1 providing some definitive timelines and

2 direction for them.

3 Certainly some other things that

4 we're anticipating seeing in the Reg A stage,

5 generally, there was a change last year in

6 Congress's bill No. 2155 that had a number of

7 banking-related items in it, but it also

8 allowed SEC reporting companies to use

9 Regulation A.

10 We anticipate that we'll see

11 additional reporting companies use this

12 Regulation A for initial offerings and

13 potentially PIPE investments as well. Private

14 investment in public equity offerings, we

15 think that could increase the interest in Reg

16 A.

17 And then, of course, as the SEC

18 knows, there's been a number of issuers that

19 have been contemplating filing virtual currency offerings

20 through Regulation A, which is something that

21 the states have an interest and will continue

22 to monitor as well. And as I know, the SEC

23 will too.

24 So, you know, again, I think the

25 bottom line is that on the Tier 1 space, we

1 haven't seen a tremendous amount of offerings.  
2 We think that there's a really good program available  
3 there, coordinated review, for small issuers to  
4 consider, particularly if they want to do a  
5 regional offering.

6 But, again, if they want to do an  
7 offering beyond just a regional offering, then  
8 we certainly encourage them to reach out to  
9 their state regulator to help understand that  
10 process. They're a lot more accommodating  
11 and friendly and accessible, then you might  
12 anticipate, so I certainly encourage you to do  
13 that and think about, you know, think about it  
14 as a possibility for your company.

15 MS. ZEPRALKA: Thanks. Before we  
16 move on, we would also like to hear about the  
17 state's experiences with intrastate offerings.  
18 We finalized the rulemakings on Rules 147, 147A  
19 and 504 about two years ago now.

20 MR. PIECIAK: Yeah.

21 MS. ZEPRALKA: And so we have our new  
22 147A that allows the companies to actually  
23 use the internet to make offerings, to any type  
24 of investors. They don't need to be  
25 accredited, as long as their investors

1 are residents of the state of the company, and  
2 the companies are not only incorporated  
3 in the state, but also have their principal  
4 place of business there.

5 MS. ZEPRALKA: Do you have any comments on how that  
6 seems to be working?

7 MR. PIECIAK: Yeah.

8 MS. ZEPRALKA: What you're seeing in  
9 Vermont in particular?

10 MR. PIECIAK: Yeah. For sure. So  
11 one thing I'll just mention, you know, Vermont  
12 has this rich tradition of local investing, and  
13 Commissioner Piwowar said, I could not  
14 tell the Ben & Jerry story anymore, but since  
15 he's not on the Commission, I'll just very  
16 briefly.

17 So as you might know, Ben & Jerry's  
18 started in Vermont in 1984. They did a local  
19 offering under Rule 147. The predecessor of 147A.  
20 They advertised it as getting a scoop of the  
21 action. They raised \$750,000 that allowed them  
22 to go from their old gas station to a new  
23 production facility in Waterbury.

24 The next year they did a national  
25 live IPO and sort of, you know, the rest is

1 history. So a number of companies in Vermont  
2 were very interested in this Vermont or only  
3 local public offering.

4 We sought companies in the '80s that  
5 attempted to raise money and were successful.  
6 We saw that sort of quiet down in the '90s and  
7 2000s, and we went and explored that with the  
8 SEC and thought what are the impediments to  
9 using the Internet in the offering.

10 And, you know, that particular  
11 regulation hadn't been updated since 1974, in  
12 the early 1970s, so, obviously, the internet  
13 came about and then interstate and travel and  
14 commerce changed tremendously since that  
15 timeframe, and the SEC was an excellent partner  
16 in working with the states to create a revised  
17 intrastate regulation that made a lot more  
18 sense for today's modern world and modern  
19 economy.

20 On the intrastate front, we've seen  
21 30 plus states adopt some kind of  
22 intrastate-based regulations. Like Vermont, a  
23 number of states have taken advantage of this  
24 new Rule 147A, and just to mention a couple of  
25 stories in Vermont, because we've seen a lot of

1 interest in local offerings, but I guess the  
2 takeaways are that, you know, what we expected  
3 two years ago and what companies are doing now  
4 that are successful or have interest is a  
5 little bit different, and I think they're  
6 different on three fronts.

7       One certainly relates to the size of  
8 the offering. We had a couple of companies  
9 right off the gate that wanted to raise a  
10 million dollars. They thought our cap, a  
11 million dollars or two million dollars, was too  
12 low. And those offerings, even ones that were  
13 pretty well financed, pretty slick in their  
14 presentation, good experience on their Board of  
15 Directors, they didn't necessarily meet a lot  
16 of success.

17       It was really the smaller offerings,  
18 \$100,000, \$50,000, \$25,000 that have been  
19 getting funded and having success.

20       The other thing is the type of  
21 investment. Again, we anticipated a lot of  
22 companies would want to do equity investment,  
23 but it turns out more recently that almost the  
24 preferred method, if not the exclusive method,  
25 is some sort of debt-related financing as the

1 way that they're approaching their local small  
2 offering.

3       That gives the company control over  
4 its equity. It doesn't give them equity at an  
5 early stage. That gives the investor, you  
6 know, a particular payback period, and I think  
7 investors are more likely to sort of invest in  
8 that type of investment. And, again, it makes  
9 sense for the business owners as well.

10       And then this last category I just  
11 put in there is sort of investor education on  
12 this intrastate front, and I really mean  
13 investor education, not even just on the  
14 intrastate, but on any of the things that we're  
15 talking about, because there are so many  
16 investing options out there right now, whether  
17 it's non-equity crowdfunding or state  
18 crowdfunding or federal crowdfunding or Reg A,  
19 Tier 1, Tier 2, you know, or Rule 504.

20       So there's a lot out there. Investors  
21 for a long time weren't able to invest in these  
22 types of businesses, so they were restricted in  
23 many ways to invest in these types of business.  
24 And now that there are so many different  
25 avenues, that's great, and I think, you know,

1 businesses are interested in that, but they're  
2 having some trouble breaking through to  
3 investors that realize that they can invest in  
4 these offerings, these are legitimate  
5 investments, and what it means to them as an  
6 investor.

7       So that's something we work on in  
8 Vermont, and I think we all can do a better job  
9 in all of our states and with the SEC to  
10 educate investors in that way.

11       And, again, just to mention a couple  
12 of stories, because I think they're great. I  
13 mean, they're not just -- it's not just the  
14 local investing in the small business it  
15 benefits, but it's really the community when  
16 it's local investing.

17       So, for example, we had a company in  
18 Vermont, one of our first local offerings  
19 that raised money to buy homes in this  
20 dilapidated downtown in Springfield, Vermont,  
21 so they raised money. They were successful.  
22 They bought foreclosed homes. They turned them  
23 into rental properties. It was a win-win for  
24 the company and for the investors in that local  
25 community of Springfield.

1 And then we had another company that  
2 raised money successfully that matches people  
3 that are in recovery with employers that are  
4 willing to give them a second chance, and that  
5 company obviously has a social element to it,  
6 but it is a very successful company, and it did  
7 a successful offering, and it also brings again  
8 a great tremendous community benefit.

9 So I think it's another important  
10 thing to keep in mind that these local  
11 offerings, you know, obviously are good for job  
12 growth and small businesses, but many times,  
13 they have a larger impact on the community as  
14 well.

15 MS. ZEPRALKA: Thanks, Mike.

16 MR. HINMAN: Peter, I have a question  
17 for you, but before I do that, I just want to  
18 go into the meat a little bit of the  
19 coordinated review that Mike was talking  
20 about.

21 So if your issuer who is in Ohio and  
22 goes -- I don't know if Ohio participates in  
23 this program, but has an offer you're thinking  
24 about and you were thinking you would do this  
25 beyond Ohio and pick up a few other states, do

1 you define the states that you expect to offer  
2 and those states are the ones that are the ones  
3 who are doing the review through the Ohio  
4 regulator?

5 MR. PIECIAK: Yeah, that's right. So  
6 the way the process works -- Andrea was about  
7 to jump up when you said does Ohio participate.  
8 The answer is yes. So, you know, but there is  
9 a coordinator -- there is a lead state, and  
10 that's the state of Washington, so basically  
11 whether you want to file in a couple of states,  
12 or, you know, all of the states, Washington is  
13 sort of the clearinghouse.

14 Washington picks a lead state  
15 examiner. Maybe it's the state here based in  
16 Ohio. Maybe it would be the Ohio regulators  
17 that will be the lead state examiner. And then,  
18 you know, we get back to them within a  
19 timeframe that's pretty quick, like seven days,  
20 and then you indicate all the states that you  
21 want to file, and then it's up to the  
22 securities regulator, the lead examiner, to  
23 coordinate with those states and provide you  
24 with one comment letter back.

25 MR. HINMAN: Got it. And then it's

1 up to the issuer to kind of make sure that  
2 those geographic boundaries, the boxes he  
3 checked are followed --

4 MR. PIECIAK: Yeah, exactly right.

5 MR. HINMAN: Okay. Great. Thanks.

6 Peter, Mike had noted that these  
7 issuers sometimes would rather do debt than  
8 equity these days, and we noticed that GoSun  
9 actually did a convertible note offering, which  
10 is a pretty unusual structure. You did it  
11 through crowdfunding. You raised \$600,000.

12 Could you give us a little background  
13 on your decisions, and why you used the crowdfunding  
14 exemption, that particular  
15 structure, which, again, is a little bit  
16 complex for early stage investors, and how has  
17 that been working out, and how about telling us a  
18 little bit about the crowdfunding investors  
19 themselves, folks that take that structure?

20 MR. HARTEN: Thank you, Bill. So  
21 essentially, GoSun was founded on the premise  
22 of making solar fuel life more accessible,  
23 easier, and cleaner for both developed and  
24 emerging markets.

25 And although GoSun had received

1 notoriety from groups such as the UN and had  
2 received grants, a lot of conventional capital  
3 was shying away from really working together on  
4 the product company.

5       Part of the emphasis of GoSun is  
6 clean tech, and actually, last year, about \$7.6 billion  
7 of venture capitalist's money went to clean  
8 tech, whereas over half of the deals more or  
9 less went to software companies. So being a  
10 product company and not quite being a tech  
11 or crypto currency, we had struggles with  
12 conversations with traditional venture  
13 capitalists on valuation, and the terms were  
14 less than favorable.

15       So not only was this a time-intensive  
16 process as a small business, but we decided we  
17 wanted to explore new and innovative ways of  
18 capital formation. So essentially, we decided  
19 to use the Reg CF, not only because we got our  
20 start as a crowdfunded company, but because we  
21 were also consumer-facing. So we were able to  
22 activate our community, engage our consumers,  
23 and raise capital all at the same time. And  
24 this helped us, not only to increase exposure,  
25 but also to allow our retail consumers to

1 invest in the company that they have supported  
2 from the beginning.

3       And as part of that, we ended up with  
4 over 500 individual investors and the average  
5 investment side was around a thousand dollars.  
6 It was a very diverse group, including some of  
7 our former customers, and also some of those  
8 investors became our retail customers as well.  
9 So it worked both ways in that forum.

10       And to that end, the decision to go,  
11 not only for the Regulation CF, but also the Rule  
12 506(c) that we did after, was based on our goal  
13 of initially raising over a million dollars.

14       And the Regulation CF went well. We  
15 raised over \$600,000, and that helped to attract  
16 the larger investors and make it an attractive  
17 venture for them. And as our mentor and  
18 colleague, Gary Star (sic), said to me, "When  
19 money is on the table, you take it as long as  
20 the terms aren't too bad."

21       So the decision to do the Rule 506(c)  
22 process was based on the fact that we had  
23 larger accredited investors that were interested in  
24 investing over a \$100,000, which was the limit  
25 under Regulation CF.

1 MR. HINMAN: So you found that you  
2 could coordinate the two and do them side by  
3 side, and then the structure, the convertible  
4 structure, your investors will get paid back  
5 the principal amounts, unless they convert, and  
6 they have a right to take a piece of the equity  
7 down the road if the equity looks attractive.  
8 Is that the structure you ended up with?

9 MR. HARTEN: Yes, that is the  
10 structure we ended up. And I believe there  
11 were three different mechanisms for that  
12 convertible note to change over, which was  
13 either a large capital investment, a decision by  
14 the board or a merger acquisition.

15 MR. HINMAN: Okay. That's when they  
16 get a piece of the equity, correct? If those  
17 items aren't happening, they just get paid back  
18 the principal and the equity stays with the  
19 founders and the other investors. Got it.

20 MS. ZEPRALKA: Thanks, Peter.

21 Sticking with crowdfunding, we're  
22 going to move on to Eve now. Eve is with Small  
23 Change, which is a Regulation Crowdfunding  
24 portal focused on real estate transactions, and  
25 you can also talk about the same concepts that

1 Peter was talking about with concurrent Reg CF  
2 and 506 (c) offerings.

3 So if you could start off with, you  
4 know, a little bit on what inspired you to get  
5 into this market, services you provide and how  
6 that's going.

7 MS. PICKER: Sure. Thanks a lot,  
8 Jennifer. Maybe my story is a little bit  
9 different. I found myself a few decades ago in  
10 Pittsburgh very unexpectedly. This is not a  
11 Pittsburgh accent. I grew up in Sidney,  
12 Australia, so very, very large metropolis, and  
13 Pittsburgh at that time had lost half of its  
14 population and pretty typical Rust Belt story.

15 And my -- with the background in  
16 architecture and urban design, I was really  
17 fascinated by what I found there and through a  
18 variety of experiences working for the planning  
19 department, creating a community development  
20 corporation, all of those experiences  
21 eventually led me to becoming a developer, and  
22 specifically tackling projects in underserved  
23 neighborhoods.

24 And what I discovered was that it was  
25 all about financing. So back then, it was a

1 stream of financing that came from the federal  
2 government through community-backed development  
3 grants. I think most cities have open  
4 redevelopment authorities or the like that will  
5 convert those grants into something that's  
6 useful for business or real estate projects in  
7 the neighborhood.

8       And also we had a lot more banks. 20  
9 years ago, there were over 15,000 banks in this  
10 country, and now there are less than 5,000.  
11 So, in effect, of -- you know, over that period  
12 of time, I feel like community banking died.

13       So the projects I was doing then, I  
14 was able to build innovative, creative projects  
15 in underserved neighborhoods that would really  
16 make some impact, some change with five percent  
17 equity.

18       Today, we have developers desperately  
19 trying to find 35 and 40 percent equity, so  
20 banking has really shifted, and that's making a  
21 very big impact on the cities and what can  
22 happen there, so that's really what Small  
23 Change is about.

24       We're trying to provide an  
25 alternative capital source for transformative

1 socially responsible projects in cities. Projects  
2 that will make things better for people who  
3 live there in a whole variety of ways. We have  
4 developed something called the change index,  
5 and we actually make sure that anyone that we  
6 help raise money on our platform fulfills a  
7 criteria of that index doing some good, so that  
8 is really -- that is really the intention of  
9 Small Change.

10 We are a funding portal, but we're  
11 actually four companies, and we did that pretty  
12 purposefully, so that we would be able to also  
13 offer Rule 506(c) and eventually Reg A as a funding  
14 portal, where we would only be permitted to  
15 conduct Regulation Crowdfunding offerings.

16 And I think as you heard from Mike,  
17 we have experienced the same -- the same issue  
18 with Regulation Crowdfunding, that we think  
19 it's unlikely that we'll be raising very large  
20 sums of money through that offering type. It's  
21 probably going to be in the \$50,000 to \$150,000  
22 range, and yet there are plenty of real estate  
23 projects that need more money than that and  
24 plenty of accredited investors who want to be  
25 involved.

1        So early this year we developed side  
2 by side offerings to commit accredited  
3 investors to invest larger amounts than they  
4 are permitted under Regulation Crowdfunding.

5        MS. ZEPRALKA: Yeah. We already  
6 talked about why you think people are doing  
7 Rule 506 -- for anyone who is not deep into the  
8 securities law the way that we are, we didn't  
9 sort of set the context for what these  
10 exemptions are.

11       So Regulation Crowdfunding is an  
12 exemption from registration where a company can  
13 raise up to \$1,070,000 in a 12-month period. It  
14 started at \$1 million, but then was raised for  
15 inflation last year.

16       Companies use an intermediary, either  
17 a broker dealer or a funding portal, like Eve's  
18 company to raise money publicly over the  
19 internet, and there are, as everyone has  
20 mentioned, there are limits on how much an  
21 individual investor can invest in those  
22 offerings.

23       A 506(c) offering is under Regulation  
24 D. That's an offering that can be generally  
25 solicited so you can advertise it across the

1 board, but all the purchasers in that offering  
2 need to be accredited investors, which is an  
3 investor that meets certain net worth or income  
4 thresholds, so wealthier people, which I think  
5 Cathy is going to talk about.

6 And -- but the issuer has to take  
7 reasonable steps to verify that each of those  
8 purchasers is actually qualified as an  
9 accredited investor. You can't just take  
10 people's word for it, so that's just an overview  
11 on what these exemptions are  
12 that we're talking about. Either Peter or Eve,  
13 did you have any issues with the verification  
14 process?

15 MS. PICKER: We use a third party to  
16 help us with verifications. There are always  
17 issues with everything. I think the company we  
18 use does a very, very good job, and it's very  
19 helpful. I think if we tried to do it  
20 ourselves, it would be very difficult, so we  
21 rely heavily on them.

22 MR. HARTEN: Similarly, we actually  
23 used the service that the platform provided us  
24 to verify the investors. That wasn't incumbent  
25 on the small business.

1 MS. PICKER: Can I add something  
2 about Regulation Crowdfunding and how it fits  
3 with SmallChange, and really this is why I  
4 launched this platform.

5 Regulation Crowdfunding permits  
6 anyone over the age of 18 to invest, so it's  
7 really -- it really is a true attempt at  
8 multiplying the investment. And in places like  
9 Pittsburgh, there is almost a palpable need for  
10 people to invest in their community, and that  
11 is -- that's what I learned when I went there,  
12 that people want to participate. They want to  
13 engage. They want to help. They want to help  
14 developers and others who are trying to make  
15 their communities better.

16 And I really believe that Regulation  
17 Crowdfunding is a path towards that.

18 MR. HINMAN: Eve, as part of that  
19 statement about the value of Regulation Crowdfunding  
20 going forward would you like to see  
21 higher limits there? Are you limited by the  
22 amount that can be raised?

23 MS. PICKER: I think the fact that we  
24 have to do side by side offerings to permit  
25 accredited investors to invest larger amounts

1 is extremely limiting. I'll give you an  
2 example. We -- I have an accredited investor  
3 in our core group who is retired, and she has  
4 net worth in the millions and wants to invest  
5 in projects like this, but her income is  
6 actually under \$100,000, so under Regulation  
7 Crowdfunding, she's limited to investing across  
8 the board.

9 In all Regulation Crowdfunding  
10 investments that she makes \$4,000 a year, and  
11 it's just not worth her while. She's not  
12 interested in that, and, yet, she's exactly the  
13 right sort of investor for these projects  
14 because she really cares about them.

15 MR. HINMAN: Right.

16 MS. PICKER: So there's some --  
17 there's definitely some flaws with the  
18 regulation that we're struggling with. I'm  
19 less concerned about the \$1 million cap,  
20 because I don't see many issuers being able to  
21 raise that amount, but -- unless, of course,  
22 accredited investors would be treated  
23 differently, so --

24 MR. HARTEN: And I wanted to add to  
25 that just that as a small business that went

1 through this, the friction or cost of going  
2 through the process for the filings, the forms,  
3 the legal disclosure, the review, as a small  
4 business, the time intense and the experience  
5 that you need for that compared to that cap, if  
6 that cap was raised, it may make it more  
7 attractive for other small business to utilize  
8 this platform.

9 MR. HINMAN: Catherine, let me ask  
10 you some questions, and you may want to comment  
11 on some of the things we just heard we were  
12 discussing, but as an angel investor, you know,  
13 located in Pittsburgh, what can you tell us  
14 about trying to operate out of the region? The  
15 Chairman and I last year, I guess about a year  
16 ago, went out to Montana and found that  
17 companies are actually having a lot of success  
18 attracting good workers in those areas, because  
19 the kids that were going to their MSU, Montana  
20 State, University of Montana wanted to stay  
21 home. They loved the quality of life in that  
22 region. I imagine the same may be very true in  
23 Pittsburgh, and that was a wonderful resource  
24 for the employers to draw on and small business  
25 to draw on.

1 But sometimes you don't see the  
2 investors there, so could you comment a little  
3 bit about your experience in the region and  
4 what it's like to try to find accredited  
5 investors in the Pittsburgh area?

6 MS. MOTT: Sure. So when  
7 entrepreneurs are seeking advice, one of the  
8 things we tell them is that what you read about  
9 what's happening on the west coast and Boston,  
10 and New York -- doesn't apply here, and it's a whole  
11 different ball game. And we encourage them to  
12 start by going to economic development  
13 agencies, incubators, accelerators, because  
14 there are a plethora of resources there, and  
15 actually you're going to hear from one to my  
16 right here later today.

17 They can give you a list of  
18 investment sources and some advisors and things  
19 like that that can help you get started, but  
20 most importantly, you know, there was a couple  
21 things that you need to have in mind, is that  
22 valuations are going to be very different.  
23 That's number one, because it's a function of  
24 supply and demand.

25 Number two is you're going to need to

1 hire a very good attorney, and I think Peter  
2 was referencing this. It's a very extremely  
3 sophisticated process, and you won't know -- I  
4 mean, a number of times we see startups go to  
5 LegalZoom or ask their Aunt who happens to be  
6 an insurance lawyer, you know, a corporate insurance  
7 attorney to help, you know, put together an  
8 LLC. That just won't fly. So there will be  
9 problems around that.

10       So start out on the right foot. Get  
11 the support that you need. And in Pittsburgh,  
12 we have 30 incubators and accelerators. I  
13 mean, there's a plethora of support, and lot of  
14 communities in the Midwest, and Montana being  
15 one of them as well, have these kind of  
16 resources.

17       The other thing you need to think  
18 about is what we're referencing here is Rules 506(c)  
19 and 506(b). Angel groups, professional angel  
20 groups operate like micro VCs. They're very  
21 professional. They do everything that the  
22 National Venture Capital Association says you  
23 should -- you know, that venture capitalists  
24 have to follow the rules they have to follow,  
25 the kind of investments, how you structure it,

1 all that. That's what angel groups will do as

2 well.

3 And so they will limit it to only Rule

4 506(b) offerings, because what we're looking at

5 are things that are going to be very capital

6 intensive and are going to require follow-on and

7 funding from venture capitalists.

8 So we will -- on our website, you

9 will see Rule 506(b) criteria and 506(b) offering is

10 what we're looking for to invest in. So that's

11 one issue.

12 The other is, yes, finding accredited

13 investors is a significant issue. It's improved

14 since 2003 when I first started. At that time,

15 there were about maybe about a hundred

16 professionally managed groups in the country

17 and today there's over 600, and it's populating

18 many, many smaller Tier 2 cities in the

19 country, and -- but this is really important

20 for the middle part of the country.

21 If you look at the kinds of

22 companies -- look at the companies that are

23 getting investing and look at the dollars. You

24 can go to CV Insights. You can go to Pitch

25 Book, whatever. So many of them rely on

1 private investors, accredited investors.

2 And I'll give two examples, and then

3 I'm going to talk about the accredited investor

4 definition, and why it's important to the

5 Midwest.

6 We have a company in our portfolio

7 called Alon Technologies. It's a medical device

8 company, and it's lifesaving. I'm not going to

9 get into the details of the type of technology

10 it is, but it has been a lifesaving kind of

11 company for -- in compassionate use and there

12 are clinical trials.

13 \$60 million has been raised by

14 private individuals, because we don't have

15 multiple -- in Pittsburgh, multiple VCs that

16 have \$500 million under management, a billion

17 under management, so when a company is doing

18 well, it -- they really -- the entrepreneurs

19 really rely on the accredited investors, the

20 high net worth individuals to fund these

21 companies.

22 Another company called Wombat

23 Security. That's a company in my -- both of

24 these companies are in my portfolio -- raised

25 \$10 million, all from private investors, except

1 for a small piece of debt.

2 Recently sold to Proof Point

3 Securities. It's a cyber security company.

4 Sorry; sold to Proof Point Systems for \$255

5 million.

6 Now, why is this important to

7 Pittsburgh? Because they went from ten

8 employees to 150 employees, and Proof Point

9 wants to keep them in Pittsburgh. The cost of

10 living is lower. The -- you know, the square

11 footage price, you know, of growing an

12 organization is much lower, much more

13 efficient, so this is -- this is pretty

14 important to Pittsburgh.

15 Now, why is this important regarding

16 the definition of accredited investor? Is that

17 the current definition is that \$1 million net

18 worth and \$200k annual income. The cost of

19 living is very, very different in many parts of

20 our country, and they obviously -- if you're on

21 the west coast or on the east coast, those

22 numbers seem small.

23 The JOBS Act originally -- I think

24 originally recommended raising that \$1 million

25 to \$2.5 million net worth and \$450,000 annually in

1 income.

2 In the middle of the country, that  
3 would have decimated the Angel Capital Association.  
4 I kind of estimated that would have decimated  
5 the angel community as about 60 percent of the  
6 angels would have been eliminated. And if you  
7 think about it, \$200,000 a year in Columbus is  
8 equivalent to making \$450,000 a year in New York.

9 When you look at a million net worth,  
10 I just recently became acquainted with some new  
11 members that became part of our angel group.  
12 They moved from California. They sold their  
13 house for a few million dollars. They bought a  
14 house in Pittsburgh, by the way, that could  
15 have sold for \$300,000 -- I mean, it sells for  
16 \$300,000 in Pittsburgh, but in San Francisco,  
17 it would have sold for about \$1.8, \$1.9 million.  
18 That's the difference. That's the difference  
19 in the middle of the country.

20 So I would highly recommend that we  
21 keep the accredited investor definition as it  
22 stands, particularly so that we can preserve  
23 accredited investor arena in the Midwest and  
24 take on something that the advisory committee  
25 even recommended, is that possibly expand the

1 definition to include other tests for  
2 sophistication, such as CPA, a registered  
3 representative, an MBA, things like that. That  
4 would really help the Midwest tremendously.

5 MR. HINMAN: Can I just ask you a  
6 little bit about that? The proposals that  
7 we've seen so far where we would leave the  
8 numbers the same but then expand through  
9 having other measures of a sophisticated  
10 investor – maybe they worked in the industry.

11 MS. MOTT: Right.

12 MR. HINMAN: Maybe they passed the  
13 test. In your experience, do you think that  
14 the additional expansion would be meaningful?  
15 Does that grab many more folks for you?

16 MS. MOTT: I think it would. It  
17 would allow us to -- I mean, there are a  
18 number -- I think about the number of attorneys  
19 that are young and understand this and actually  
20 represent those firms, and they might be in  
21 Pittsburgh making \$150,000 or \$170,000 or not quite  
22 at that \$200,000 level. That would open the  
23 door for them to participate in this asset  
24 class.

25 MS. ZEPRALKA: Thanks. Okay. So

1 moving on to Wayne. You're sort of in the same  
2 world of Catherine. You have 30 years of  
3 experience in seed investing.

4 Can you describe what you're seeing  
5 in today's environment that might affect the  
6 type of offering a company chooses to do and  
7 talk a little about how you work with your  
8 company as they grow and seek to raise  
9 additional capital.

10 MR. EMBREE: Yes. Thank you.  
11 Commissioners, thank you for being here. It's  
12 great to have the Commission present and public  
13 and in Columbus. A lot of what I'm going to  
14 say echos what Catherine said.

15 The experience I've had over the  
16 years being focused on investing in high-growth  
17 potential companies, so we're typically  
18 beginning with single founder or very small  
19 founder teams, or in a lot of cases, principal  
20 investors out of a research institution, and  
21 we're helping them actually create a company  
22 around a market opportunity that could be  
23 served by the technology they develop.

24 So the stage at which we're beginning  
25 is, in many cases, it's yet to be determined

1 how capital efficient or how capital intensive  
2 the enterprise is going to be. But in more  
3 cases than not, the companies are going to need  
4 to raise much more capital than is available  
5 within any given region.

6 And most of my investment experience  
7 has been in small markets as primarily in the  
8 Pacific Northwest, in western Canada, Oklahoma,  
9 and here in Ohio.

10 So seeing companies that are not  
11 served by large, local professionally managed  
12 markets, so the availability of angel  
13 investors, high net worths, especially  
14 individuals that are experienced in the market  
15 segment that the entrepreneurs are serving, is  
16 really critical.

17 And so what's changed over the years  
18 has been a -- I guess more recognition of  
19 opportunity in early stage, high-growth  
20 companies, and that's partly due to the popular  
21 media.

22 That's the good and the bad news, and  
23 as Catherine noted, the expectations are often  
24 modeled by what's happening in Silicon Valley,  
25 New York, and Boston, which in reality—even in

1 those cases, a very, very small percentage of  
2 companies.

3       So tempering the expectations of  
4 entrepreneurs with your own local market is  
5 really important. The other thing is, contrary  
6 to popular belief, most companies do not fail  
7 for lack of capital. They fail because they  
8 don't have a product the market wants to buy.

9       So most entrepreneurs build a  
10 product. Then go to the market, as opposed to  
11 understanding the market opportunity and then  
12 building the product.

13       And so the folks at the SEC looked  
14 around to find somebody who had a face that  
15 matched their budget and they found me.

16       But as I've said in some of the  
17 pre-meeting calls that we've had, my experience  
18 with, you know, working with companies raising  
19 capital has been to really focus on those  
20 individuals, those organizations that can help  
21 advance the business. It's too hard to start a  
22 company under any circumstances, any kind of  
23 company, but if you don't really understand  
24 your investors, and your investors don't really  
25 understand you, you're creating a potential for

1 a very deep dysfunction.  
2       We're actually going through this  
3 right now with one of our portfolio companies,  
4 that contrary to our best intention and best  
5 wishes, the founders took money under the  
6 exemption from some family and friends, and now  
7 those family and friends don't like what's  
8 happening with the company, because they've had  
9 to raise more money, and they want their money  
10 back, so we sent them all the documents they  
11 signed, with all the declarations, and we had a  
12 good law firm work with us and all that, to  
13 remind them that this is what they signed up  
14 for.

15       Now, my preference again would have  
16 been they were not in the deal to begin with,  
17 but, unfortunately, this is taking time from  
18 the management team. It's taking time from the  
19 board. It's taking time from the other  
20 investors involved in the company to help sort  
21 this out, because we have people now involved  
22 with the company who should not have been there  
23 in the first place.

24       So we spend a lot of time working  
25 with the entrepreneurs to help them really

1 understand what the market needs and market  
2 expectations are for their companies and try to  
3 model the right types of investors for that.  
4       And then I have been a board member, at this  
5 point, probably about 50 different private and  
6 public companies. I served on the board of --  
7 I think of one of the first direct public  
8 offering companies, Ohio Valley Vineyards, in  
9 the early '90s.

10       The thing that was interesting about  
11 that case versus a lot of the other  
12 crowdfunding cases is these were all customers,  
13 so the founder actually knew everybody they  
14 were selling stock to, and they were bound by a  
15 love of wine, and so there was a lot of  
16 forgiveness, because there was, you know,  
17 common interest in the product.

18       And so when you look at that -- and I  
19 think that's probably true for, Peter, your  
20 company as well, if there's this bond to the  
21 product. So really try to align those  
22 interests is really critical in the whole  
23 capital formation process.

24       The other thing we've seen happen  
25 over the last few years is the rise of the

1 family office, and so only in about the last --  
2 I would say probably five to ten years -- we've  
3 seen family offices become quasi-institutional  
4 investors, and so they represent a form of  
5 capital, and in some cases significantly larger  
6 than average venture funds, but they're  
7 investing for many of the same reasons that  
8 high net worth individuals are. There's an  
9 alignment with the interest and the goals of  
10 the company.

11 And so working with individuals in  
12 your community that have those -- access to  
13 those individuals in those organizations is  
14 really, really critical. And so we, again,  
15 work with the companies to help them identify a  
16 clear path forward, not just for the current  
17 round that they're raising, but for at least  
18 the next round, because one of the things I do  
19 know is the likelihood of any one company that  
20 has a growth path of only needing one round of  
21 capital is highly unlikely.

22 And so really trying to figure out  
23 where the next round of capital comes from,  
24 what are those investors looking for, and how  
25 do you socialize it earlier enough to make sure

1 that you have a coherent, cogent and appealing  
2 story is where we spend a huge amount of our  
3 time.

4 MS. ZEPRALKA: Thanks. And so those  
5 rounds of capital that you're working with  
6 companies on, that -- from a regulatory  
7 perspective, those would be sort of traditional  
8 private placements, right?

9 MR. EMBREE: Yes. They're very  
10 traditional, very conventional. We look for  
11 the, you know, the best options we can find,  
12 and one of the things I really agree with  
13 Catherine about is not tightening the  
14 regulations and the rules around accredited  
15 investors. That's something I think that would  
16 just -- it would cripple the rest of the  
17 country.

18 MS. ZEPRALKA: Okay. Thank you.

19 MR. HINMAN: Scott, let's move to  
20 you. Wayne just gave us some very practical  
21 advice based on his experiences. You have a  
22 somewhat unique perspective in that you're both  
23 in academics and an investor. Maybe you could  
24 share with us a little bit some insights you  
25 have from that perspective.

1       Is there data here, as well as the  
2 anecdotal things that we're hearing about  
3 capital formation for small businesses that  
4 might surprise us or be interesting, or how do  
5 you see the intersection of the academic work  
6 that you do and the investing work you do?

7       MR. SHANE: Absolutely. So I thank  
8 you again for the opportunity to give some  
9 comments on this topic. So I'm going to start  
10 by framing this a little bit and saying that  
11 this reflects both the combination of my  
12 practical experience and my academic research,  
13 and also is very heavily focused on the  
14 software side of the early stage company world.  
15 So this -- what -- my statements have little to  
16 do really with the biomedical startup world.

17       Basically, the core of -- the message  
18 that I would deliver here is that we have -- we  
19 are in the midst of a long-term trend towards  
20 the driving down of the cost of bringing  
21 software products to market in an extraordinary  
22 degree over the past 30 years, and I want to  
23 focus a little bit on the period since the --  
24 since 2001, since the end of the dot com boom,  
25 and I would say that it's led to a set of

1 different trends.

2       The first is a tremendous increase in

3 the variation of early stage investment

4 instruments and activities that occur. Growth

5 and geographic dispersion of the startup

6 activity and the investors, greater

7 interconnectedness between the major sources of

8 capital on the coast and the heartland areas

9 and greater involvement of informal investors,

10 including largely angel investors, some of who

11 are professionally managed, some of whom are a

12 different variety of angel investors. And all

13 of this is making it very difficult to process

14 of regulating the effort.

15       So we could take off the set of

16 innovations in software from horizontal

17 computing, open source computing, internet

18 surge, payments, et cetera, all of these have

19 led to a dramatic change in the cost structure.

20       In 2001, it took about \$5 million in

21 today's dollars to bring a new software product

22 to market. In today's dollars, if you're a

23 technically trained founder, that's effectively

24 zero, and that's an extraordinary change.

25       What that means is that you can start

1 a software company anywhere, and people are  
2 doing that.

3 Now, entrepreneurs start companies to  
4 solve problems where they are. So a founder in  
5 San Francisco might see a market opportunity to  
6 deliver avocado toast from a chic restaurant by  
7 drone. The one -- and doing it, by the way.  
8 The ones in Cleveland might find a way to have  
9 software control, robotic arms for welding as a  
10 solution of what they're going to do.

11 As in historical tendency, there  
12 was -- people would start companies where they  
13 could get capital, but if you don't need very  
14 much capital, at the pre-seed and seed stage,  
15 there's no reason to move to places like Sand  
16 Hill Road to raise the money.

17 Now, in -- so we've got this  
18 geographic dispersion. We also see changes in  
19 the kinds of activities. One of the most  
20 notable ones at the early stage is a dramatic  
21 shift from venture capital, institutional  
22 venture capital as being the source of that  
23 kind of financing, to angels.

24 And just a couple of numbers on this  
25 is that -- well, the number of venture capital

1 funds -- number of venture capital funds have  
2 decreased over this period. The number of  
3 angel investors since 2001 has increased about  
4 52 percent, and angel backed companies have  
5 nearly doubled.

6       So we're seeing a shift over to that  
7 activity. So just to give you a statistic on  
8 this, there are now 2.25 times as many active  
9 angels per venture capital fund in the United  
10 States as there were at the end of the dot com  
11 bubble. That's a shift in who was providing  
12 that money.

13       Second shift is starting in about  
14 2008, we saw a change to micro VCs coming on to  
15 market. Micro VCs manage uncertainty very  
16 differently than traditional venture capital  
17 funds where they're putting small checks in.  
18 They're not doing the heavy due diligence, and  
19 they're dealing with the uncertainty by massive  
20 diversification. That changes the investment  
21 model as well.

22       Another trend in instrument  
23 activities was that in 2005, we saw the  
24 formation of the first startup accelerator, Y  
25 Combinator, right? We now have over 600

1 startup accelerators. I hear that there are 30  
2 or so in -- just in Pittsburgh, right? So we  
3 have that activity.

4 Now, that's another approach and a  
5 difference in the process. We see online  
6 platforms, since the JOBS Act, and those online  
7 platforms have changed the process of  
8 investing. To just give you a sense of this,  
9 this is driving the geographic movement.

10 There was an Angel Capital  
11 Association survey in March of 2015 that asked  
12 angel group members about whether they  
13 preferred to invest in startups located within  
14 a two-hour drive of their homes.

15 They had the same survey in 2008. In  
16 2008, it was 28 percent preferred to invest  
17 within two hours drive of their homes. In  
18 2015, that was down to 13 percent, right. So  
19 we're seeing a geographic dispersion in that  
20 activity.

21 Those startups still need massive  
22 amounts of money if they're going to try to  
23 reach scale in many of these activities, and  
24 that's when we're seeing another trend, which  
25 is the sources of capital changing their

1 attitudes towards those early companies.  
2       So it used to be move the startup out  
3 to where the capital was. This doesn't work  
4 very well for the companies, because if the  
5 customers are located in, say, the Midwest, in  
6 Ohio, moving a company to raise money in San  
7 Francisco for the founders to fly back to the  
8 Midwest to go see their customers doesn't make  
9 sense. Capital is supposed to be mobile.

10 Capital should move.

11       With the very early stages of a trend  
12 there, the most notable part of that is  
13 probably Steve Case's effort with the Rise of  
14 the Rest and Revolution, but -- a small fund  
15 that I'm involved with, Comeback Capital is an  
16 effort of these coastal investors to effectively  
17 pool their money with Midwestern investors to  
18 put money into the Midwestern companies and get  
19 the money and the connections flowing to the  
20 location.

21       I'm just going to end by saying all  
22 this makes the job of regulators much more  
23 difficult, right? Now we're looking at many  
24 more different kinds of financing instruments  
25 than there used to be, right? The change in

1 real dollar value of this accredited investor  
2 cutoff means that the types of investors are  
3 also changing the movement to angels from  
4 venture capitalists, also changing that.

5 The use of platforms, people  
6 investing smaller amounts of money in  
7 companies, changing their behavior as well, and  
8 the shift to accelerator and accelerator fund  
9 models creating yet another set of kinds of  
10 innovations that people have to deal with.

11 MS. MOTT: Could I offer a comment,  
12 and I should follow up with a question?

13 So one of the things about the ACA  
14 study with the -- investors investing outside  
15 the region, a lot of that is a function of  
16 syndication. So in -- sort of in the angel  
17 professional management group world, is if  
18 there is a lead investor that they know and  
19 trust, they will syndicate, so similar to  
20 venture capitalists.

21 What I would be curious about is,  
22 Scott, is to understand the -- you know, where  
23 this growth of angel investors is happening,  
24 because at one time, you could never find them  
25 in the Midwest. So do you have any kind of,

1 you know, regional data that kind of highlights  
2 the growth in the Midwest and other parts of  
3 the region and how much does that impact the  
4 overall growth?

5 MR. SHANE: So I have more anecdotal  
6 information on that. And one of the problems  
7 in this space is, of course, the data is not  
8 very good. It's much harder to measure this.

9 So one of the things that I think is  
10 important to pay attention to is in response to  
11 the first statement you made is that, yes, part  
12 of this drive is syndication. We forget. We  
13 think that the whole idea is that there's  
14 investors in San Francisco and New York, and  
15 the whole idea is to get them to invest in Ohio  
16 or in Pennsylvania. But there's also the idea  
17 of well, how can we get investors in Ohio to  
18 invest in Pennsylvania, investors in  
19 Pennsylvania to invest in Ohio, right? And  
20 that matters as well.

21 On that, we're fighting a very  
22 difficult trend, which is that in the Midwest  
23 and most parts of the country, the state  
24 policies try to encourage investments solely  
25 within the states, right, and that makes this a

1 very difficult activity to manage, right?

2       It is much easier for me as an investor, it

3 is much more logical for me to invest in a

4 Pittsburgh company, coming from Cleveland. The

5 economies are similar, more similar than, say,

6 to Cincinnati, and the drive is closer to

7 Pittsburgh than it is to Cincinnati, but all

8 the incentives are to invest in the Cincinnati

9 company, so that's one piece of this.

10       The other piece is that the platforms

11 are driving some of this geographic investment.

12 So if you looked at data, for example, from a

13 seed invest, you would see that there are

14 people who are located somewhere else in the

15 country who discover a company that happens to

16 be in Ohio or Wisconsin and they invest, and

17 those platforms are pushing that activity.

18       When we were in that pre-platform

19 era, if you were to find those investors, it

20 would be almost impossible. How would you find

21 the Kansas City investor to invest in the

22 Wisconsin company in a pre-online platform era?

23 I mean, you would have to have known them

24 personally.

25       CHAIRMAN CLAYTON: I'm going to jump in

1 here, and I want to start with some  
2 perspectives, and that is -- we're going to get  
3 to the lawyer and the accountant, but, you  
4 know, having been in the professional services  
5 space, you're more on the execution than the  
6 idea side. No offense. It's very important,  
7 and I'll get to that.

8 But it's so nice to talk to people  
9 who, you know, identify issues, but have also  
10 found solutions, and that's really what this is  
11 all about, trying to find solutions. I just  
12 want to outline for you and others the way I'm  
13 looking at these issues and then offer some  
14 perspectives on solutions. I see three broad  
15 issues. We have a situation where ability --  
16 ability and desire in the country is widely  
17 distributed, but opportunity is much more  
18 concentrated. Opportunity with capital and  
19 opportunity with expertise, like the expertise  
20 that you're talking about that you need to  
21 raise capital, is much more concentrated.

22 Second issue is while we've made  
23 substantial efforts to try and facilitate  
24 private investment through exemptions, the ones  
25 we talked about. You know, we used buzz words

1 like Rule 506 and Crowdfunding and intrastate  
2 offerings. It is a patchwork, and it's fairly  
3 complex. It's the result of an incrementalist  
4 approach, all with the best intention and with  
5 some great effect.

6       The third issue is one that's  
7 important to all of us, and that is that  
8 investment opportunities for what I call Main  
9 Street investors, people who are in Ohio and  
10 want to invest in Pennsylvania or -- we have  
11 really driven those through policy and other  
12 things to our public capital markets, and, in  
13 fact, our large capital markets. Again, this  
14 is not for bad reasons. It's for good reasons.  
15 I just wrote down a number of things that are  
16 good about that. Very low cost, attraction is  
17 very low cost, high investor protection,  
18 long-term returns, proven over time, access to  
19 liquidity.

20       If you look at private investments,  
21 it's a much messier story on each of those.  
22 One of the issues that we have is we  
23 want to try and deliver those same, you know,  
24 wonderful attributes of our large company  
25 public markets to the private space. That's

1 not possible.

2       It is- as Wayne said -- it's a  
3 messier space, and if you're investing in that  
4 space, you have to understand that it comes  
5 with many more ups and downs, many more  
6 failures, and many more frictions. One way to  
7 deal with that is to tell people that. Another  
8 way is to have things like platforms that have  
9 developed where you have an intermediary who  
10 tries to smooth those frictions for the  
11 investors.

12       So a few ideas on solutions, on  
13 ability being widely distributed, and  
14 opportunity being much more concentrated than  
15 we would like. I think places like The Ohio  
16 State University, places where you can bring  
17 together talent and ideas in a practical way  
18 like this. We're seeing more of that. The  
19 more we at the SEC can do to encourage that,  
20 the better.

21       You know, just one -- on the  
22 patchwork of exemptions, Bill and Jennifer are  
23 already busy at work. We are looking for  
24 ideas. We're looking for ideas on how to  
25 harmonize, rationalize, make it simpler. And

1 then lastly on this idea that it is a messier  
2 space, but it doesn't mean we should keep our  
3 Main Street investors out of it.

4 Ideas on how to make them understand  
5 that, you know, using professionals to kind of  
6 smooth out those shocks, the way -- things that  
7 we can do to increase participation in a way  
8 that everybody feels is fair. That's -- those  
9 are the ways that I'm looking at this.

10 I just wanted to share those with  
11 you, and I think -- I've heard a lot of that  
12 from the panel already, so I thank you.

13 MR. HINMAN: Thank you very much.

14 MS. PICKER: I just have a really  
15 quick comment on community and how people and  
16 where people are investing. And the internet  
17 has changed many things, and what we're finding  
18 is community may not mean geographic community  
19 anymore.

20 So if someone is very interested in  
21 affordable housing, they may want to invest in  
22 affordable house no matter where in the country  
23 it is. So if they're very interested in  
24 historic renovations, that's the way they'll  
25 invest, so we do see people investing locally,

1 but it's a little bit of a surprise to see how

2 they invest.

3 And I think you also have to remember

4 that most of the people who come to a platform

5 or maybe all of them, from most of them, have

6 never had an opportunity to invest before ever.

7 And so they are going to be looking much

8 further afield than locally, just for that

9 opportunity.

10 MR. SHANE: So along the lines of the

11 issues that seem problematic in the space, I

12 wanted to stress the issue of the lack of

13 liquidity and the lack of secondary sales of

14 these early possessions. These are an very

15 important issue to address.

16 The second one is frankly the cost

17 structure of investing, that, you know, in a

18 world in which a person can invest in a mutual

19 fund now and pay effectively zero fees, they

20 are faced with paying, you know, 20 percent

21 carry and two percent in putting money into

22 funds. It seems like a right time for addressing

23 the cost structure, because as that gap between

24 the public markets and the private market

25 investing grows, that process is going to make

1 it harder to attract the people -- the Main  
2 Street investors into the private space.  
3 CHAIRMAN CLAYTON: I promise that Scott  
4 and I didn't rehearse this ahead of time, but  
5 you hit the nail on the head. The drag  
6 associated with investing in private markets  
7 for small investments is an annoyance, and what  
8 things we can do to force the market to bring  
9 down that drag, we're all ears.

10 I mean, the question I say to Main  
11 Street investors is you should ask how much of  
12 my money is going to work for me, and when that  
13 number is, you know -- if you're putting in a  
14 hundred, it's only 92. That's not a great  
15 answer.

16 MS. ZEPRALKA: We finally get to the  
17 lawyer. So you work with startup companies as  
18 they raise capital and then through the process  
19 of going public, and then once they're public,  
20 you work with them on navigating SEC's rules.

21 So we were hoping you could talk  
22 about the decisions that your, particularly  
23 Midwest-based, clients are facing as they're  
24 considering their capital raising options, how  
25 you counsel them through that, and then we can

1 talk a little bit more about some of our rules

2 that you're working with.

3 MR. SEAMON: I'm happy to, and I

4 think a lot of this echoes the theme of what

5 we've already heard today, which is, you know,

6 there's really no one size fits all approach

7 when it comes to thinking about the most

8 optimal way to raise capital.

9 I think a lot of times, issuers come

10 to us and they have a preconceived notion of

11 what they think they may need, and I think, you

12 know, the term of navigation is, you know, appropriate

13 and in the current sort of regulatory scheme,

14 really, walking companies through what makes

15 the most sense.

16 A lot of times, you know, we'll see

17 clients that will say, you know, "We've heard

18 of Reg A plus. You know, we want to do a Reg A plus

19 offering," and you start talking about their

20 business, and really what their capital need

21 is, and you find that there's sort of a better

22 exemption strategy that really fits that

23 capital plan, so I think that tends to be sort

24 of the driver is, you know, the type of

25 security or issuing debt or equity.

1       What is the cost of that capital? You  
2 know, what is the price that you're going to be  
3 able to sell that based on valuation? Are you  
4 looking for institutional or retail base? Are  
5 you looking for potential customers if you're  
6 in a consumer-facing business? You know, how  
7 this fits within your overall plans.

8       I think Wayne made a great point in  
9 something that we see with our clients, which  
10 is, you know, a lot times our clients aren't  
11 really looking for faceless money. They're  
12 looking for strategic partners. They're  
13 looking for somebody that understands the  
14 business, understands where the company is in  
15 its life cycle, and, you know, have a feel of  
16 what they may need to raise capital in the  
17 future.

18       So, you know, all that being said, I  
19 think the positive is that there are a lot of  
20 tools in the tool kits that companies have  
21 these days to raise money, and I think we've  
22 heard about some of those today.

23       You know, I think our experience,  
24 both in the Midwest and nationally, and I think  
25 this is borne out in the SEC statistics, is

1 that the more conventional Rule 506(b) offering  
2 to -- up to 35 accredited investors, no general  
3 solicitation, still tends to be the main  
4 exemption that a lot of companies are looking  
5 to rely upon. You know, I think that's  
6 probably for a couple of reasons.

7       One, that's an accepted exemption. I  
8 think the market understands it. In many ways, the  
9 accredited investor universe, while growing,  
10 it's something they understand. It preempts  
11 state security law compliance, other than  
12 notice filings, and so sometimes that's  
13 attractive when you have to remind clients that  
14 in addition to federal securities law, they  
15 need to ensure they're complying in every  
16 state. So that is often an important  
17 consideration. So those are things on the  
18 private side.

19       As companies move through the life  
20 cycle and they're starting to raise more money,  
21 whether it's private equity or angel investors,  
22 and they're starting to think about going  
23 public, I would say, you know, the tools in  
24 your arsenal have continued to expand, which is  
25 a good thing.

1       We routinely see companies that look  
2 to go public and invariably they're taking  
3 advantage of emerging growth status, emerging  
4 growth company status under the JOBS Act, so we  
5 think that process is working well.

6       We see lots of clients taking  
7 advantage of confidential submissions in the  
8 filing process. I think that's an invaluable  
9 tool. That's also been expanded, and we're  
10 pleased to see that. So, you know, there's  
11 been a lot of things that have, I think,  
12 facilitated capital formation that we're  
13 seeing.

14      You know, a few of the items that we  
15 think would be useful, including some of the  
16 things we were talking about with the potential  
17 sophistication standard and accredited investor  
18 definition to expand that base.

19      Another concept I know that's been  
20 highlighted before has been the concept of  
21 finders and really expanding the ability of  
22 intermediaries to source capital with  
23 companies.

24      We represent a lot of investment  
25 banks, placement agents, and I can tell you

1 that they do a good job of bringing discipline  
2 to a process. I think there can be a balance  
3 to allow intermediaries to source capital that  
4 may not be an investment bank, would also be  
5 useful.

6 We often hear, you know, in a  
7 transaction where a particular party may say,  
8 "Well, you know, I don't understand. Why can't  
9 I get commission-based compensation based on  
10 finding investors?"

11 Well, you're not a broker/dealer, and  
12 they say, "But everybody is doing that." Well,  
13 they may be, but, you know, the law is very  
14 unclear. So, you know, those were a couple of  
15 areas that we think would make sense.

16 And then thinking about the  
17 disclosure regime, was very encouraged by the  
18 Chairman's comments about the patchwork and  
19 potential rationalization of the exemption  
20 schemes. I think that would go a long way  
21 towards helping on capital formation.

22 My final point -- this may segue to  
23 the auditor in the room, is for companies that  
24 are already public, and we can talk more about  
25 this later, a number of techniques and things

1 to streamline their ability to raise capital. I  
2 certainly think looking at the Forms, both S-3 and  
3 S-8 and seeing how we can streamline those so  
4 that smaller companies can go to market quickly  
5 on a registration form that makes sense for  
6 them is a good idea and then rationalizing the  
7 Accounting Rules containing Regulation S-X,  
8 which tend to be a morass for a lot of smaller  
9 reporting companies, especially those that are  
10 looking to do acquisitions and grow by  
11 acquisition.

12 And a lot of times we're counseling  
13 smaller reporting companies that have the deal  
14 of a lifetime in the form of a merger of  
15 equals, and they find out that there's this  
16 complicated set of financial statement  
17 requirements for their counter party that they  
18 may not have contemplated, and that causes a  
19 large drag of time and resources.

20 And so thinking about what that  
21 balance is within the financial reporting  
22 regime, I think, would make a lot of sense.

23 MR. HINMAN: Okay. That's a great  
24 segue to Jason, our auditor. I think our  
25 division has more accountants than we do

1 lawyers, reviewing public filings and Reg A  
2 filings. The accountants play a critical role.  
3 That obviously reflects the foundational  
4 importance of financial statements and giving  
5 investors something they can work from. It all  
6 starts there, really.

7       So we're really interested in hearing  
8 thoughts around how your firm works with  
9 smaller reporting companies and companies that  
10 are not quite there yet and, you know, talking  
11 about some of the obstacles and specifically  
12 referring and specifically mentioning Section 404(b) and the  
13 outside auditor attestation. Until we recently  
14 changed the smaller reporting company rules, if  
15 you were a smaller reporting company, you did  
16 not have to provide the outside auditor  
17 attestation.

18       We've now lifted a number of  
19 companies that could be smaller reporting  
20 companies. As we did that, we didn't lift that  
21 exemption with it, so now there's a group of  
22 smaller reporting companies that currently have  
23 a Section 404(b) attestation requirement.

24       We're looking at that request  
25 of the Chairman. We're trying to think of the

1 cost balances there, but it would be really  
2 helpful to hear your thoughts about that issue  
3 or other smaller reporting company issues that  
4 you've seen.

5 MR. PLOURDE: Yeah. Thanks a lot.  
6 I'm grateful that accounting has taken its  
7 place among these other topics that people  
8 perceive as more interesting, like crowdfunding  
9 and the like and technology, but certainly  
10 accounting is a big consideration with respect  
11 to the companies we work with and the smaller  
12 reporting space, emerging growth, and even the  
13 pre-IPO and family companies thinking about  
14 what that means, and we spent a lot of time on  
15 the Section 404(b) topic, because when we go into a  
16 company that is thinking about an emerging growth  
17 path for IPO, it's the first question we get.  
18 What can we do about controls? When are  
19 controls going to be needed to be audited? What  
20 is our reporting obligations, both for auditor  
21 and management going to be, because  
22 that is, as Chairman Clayton, and at least one  
23 of the Commissioners pointed out, you know, the  
24 patchwork extends to accounting.

25 And Section 404(b) is kind of how you do

1 accounting. Do you have the right controls,  
2 and are those controls documented? Tested?  
3 Kind of how you do accounting, and then these  
4 other exempt offerings where you don't need to  
5 use Regulation S-X and some of the other differences in  
6 accounting for the smaller reporting companies  
7 the number of periods to show -- the number of  
8 periods you have to show when there is an  
9 acquisition, to Aaron's point. So there is  
10 flexibility. There is this patchwork around  
11 accounting as well.

12 So going to some of the things with  
13 Section 404(b)--

14 MR. HINMAN: Do you mind if I --

15 MR. PLOURDE: Please.

16 MR. HINMAN: I just was thinking  
17 maybe we should provide a little bit of a  
18 foundation for the broader audience on Section  
19 404 of the Sarbanes Oxley Act and what it's asking new  
20 public companies to do.

21 Section 404 has two important parts—404(a)  
22 and 404(b). We sometimes forget about 404(a).  
23 That's asking management to look at the  
24 controls that they have over their financial  
25 reporting and whether those are adequate. We

1 ask management teams once they're public to  
2 attest to the adequacy of those controls so  
3 that they're -- they believe they have a good  
4 system in place and can generate numbers of  
5 high integrity.

6       At a certain point, you also became  
7 subject to Section 404(b), which is saying the  
8 outside auditors that you use have to attest to  
9 the quality of those controls.

10       Sometimes people forget that  
11 management has to have those in place already,  
12 that those the controls should be there and  
13 management attest to them. Section 404(b), that  
14 requirement takes another step. It says now  
15 the outside auditor has to sign up and say they  
16 reviewed these and tell a story as to whether  
17 they think those are adequate or not. And it's  
18 just -- the next step which sometimes -- can be  
19 quite costly for public companies.

20       And, again, it used to be if you were  
21 a smaller reporting company, you were exempt.  
22 Now smaller reporting companies are a larger  
23 universe and not all of those are exempt. And  
24 we're looking at, are we drawing the lines  
25 around Section 404(b) attestation requirements

1 correctly?  
2 Right now we're just looking at the  
3 market cap of the company. Are there are other  
4 things we should consider? It makes sense when  
5 you think about having the outside auditor  
6 attest to the controls that you would be  
7 thinking, we want that to happen in an  
8 environment where there's complex financials,  
9 where there's value added by that outside  
10 attestation. Is market cap the best way to  
11 determine that?

12 So we're looking at things beyond  
13 market cap, the levels of revenue of the  
14 company, the complexity of their financials,  
15 and we're trying to strike the right cost benefit  
16 analysis there.

17 But you're dealing with this on a  
18 daily basis, so companies -- it's interesting  
19 to hear that this is weighing in their analysis  
20 of the public company alternative and how they  
21 sort that out.

22 MR. PLOURDE: Yeah. I mean, this  
23 way -- this is the first -- like I said, one of  
24 the first questions is about what do I need to  
25 do on controls in order for them to get

1 audited? Like I said, you have to have the  
2 management assessment regardless, but the  
3 auditor attestation is perceived as very  
4 rigorous. It's perceived as not, you know,  
5 adding a lot, and it's perceived as a cost.

6       So when I was with the staff, we  
7 studied this population of issuers that had the  
8 public float between \$75 and \$250 million, which  
9 is now sort of a -- in the smaller reporting  
10 company space -- and there's a lot of perception  
11 in the market at that time and now that that's  
12 very costly, that that should be lifted, that  
13 there should be further exemptions from 404(b).

14       And when the staff recommended that  
15 there not be further exemptions, that the JOBS  
16 Act came along less than a year later to give a  
17 further exemption and some of the exemption  
18 criteria are not just market. When you go out  
19 of the emerging growth includes revenue, and  
20 there was a lot of discussion at the time when  
21 they were thinking about recommendations of  
22 what about companies with no revenue, that are  
23 just based on the prospects in the pipeline,  
24 mostly, you know, drug companies, but that's  
25 something to look at and certainly would

1 encourage that.

2       So 404(b) is a huge topic with respect  
3 to newer companies and smaller companies having  
4 to have that in place, and certainly all of our  
5 clients encourage the SEC to look at those  
6 thresholds. Do they make sense, because, you  
7 know, it's costly for them, but on the flip  
8 side, the inevitable tradeoffs with investor  
9 protection is investors view this as really  
10 critical to their protection.

11       Particularly because when you look at  
12 the relative risk in a smaller company of  
13 fraud, the median company that commits fraud,  
14 and this data is a little old, but it is in the  
15 asset and revenue of a hundred million. So  
16 investors want that protection from fraud that  
17 that 404(b) provides at least some of that  
18 protection.

19       MR. HINMAN: Are there things in Reg  
20 S-X or financial reporting requirements that  
21 may be interesting to hear about in terms of  
22 costly items?

23       MR. PLOURDE: Yeah. Yeah. And Aaron  
24 touched on one. It's the -- you know -- items  
25 around acquisition. So in the smaller

1 reporting company space, there's Reg S-X Rule 804 on  
2 what financials are required. Now, that's nice  
3 because it never kind of goes back more than  
4 two years for the smaller reporting companies.  
5 So that relief is very welcome.

6 I'm not sure what else to do in that  
7 space, because the financials of acquisitions  
8 are really important to investors as well.

9 On Rule 804 with pro forma that --  
10 this is a space where almost everyone, it seems  
11 to be based on the comments that came into the  
12 other advisory groups on small businesses and  
13 the studies that we did, is that it's very  
14 backward-looking. Investors, you know, think  
15 it's -- it doesn't look at the synergies that  
16 are going to be expected or even what the  
17 management's aspirations are, fails to take  
18 those into account with respect to the types of  
19 adjustments that can be made.

20 And so pro forma is kind of looked  
21 at, investors say, well, is this really the  
22 information you want? Companies, it's very  
23 costly.

24 When we did, you know, recent  
25 emerging growth company where it was a put

1 together transaction and we spent numerable  
2 hours with the pro forma and only to have, you  
3 know, the investment banks that were coming in,  
4 you know, they're doing all their own modeling  
5 on the synergies and the forward-looking that,  
6 you know, the company doesn't even provide, and  
7 that auditors are not involved, really, in pro  
8 forma information as well. It's labeled on  
9 unaudited, both in the Form 8-Ks and things that are  
10 filed. It's also labeled unaudited, even the  
11 financial statements for the parts of pro forma  
12 that are required by GAAP.

13 And commentators also raised the fact  
14 that those two are incongruous as well. One  
15 will require certain adjustments. The other  
16 prohibits them. There's issues with, you know,  
17 providing comparatives in the pro formas that  
18 are required by Article 11 of S-X.

19 So, you know, there is a question  
20 around pro forma and is that serving everybody,  
21 -- both the investors and the companies  
22 doing the offerings?

23 MR. SEAMON: Yeah, just two sort of  
24 quick observations, not to get too much into  
25 the weeds, to piggyback on what Jason said.

1 I think the other practical  
2 implication that comes along with both  
3 companies that are doing acquisition, and  
4 typically those are accompanied by raising  
5 capital, because in the midst of a large  
6 transaction, they're usually looking to fund  
7 their balance sheet.

8 In addition to the pro forma  
9 requirements and the legacy financials, if  
10 you're raising capital as a practical matter,  
11 the underwriters are going to require a comfort  
12 letter. They're going to require assurances  
13 from the auditor as to information that's shown  
14 in the prospectus, and so there becomes  
15 challenges with a legacy company that may be  
16 private that's never had a certain level of  
17 rigor on their financials and deciding where an  
18 auditor can or can't get comfort. I think  
19 that's certainly one issue.

20 And the other issue is sort of  
21 technical issues around closing an acquisition  
22 and then doing an offering on Form S-3 or  
23 S-1 at some later date and finding out that  
24 there's some idiosyncrasy between what was  
25 required at the time you closed your

1 transaction versus what you now need to include  
2 in your registration statement.

3       You know, clients will find out that  
4 the final stub period for the legacy company  
5 all of a sudden now needs to be included in a  
6 filing maybe nine months later at the time of  
7 their 10-K, and so what's the utility there.

8       MR. HINMAN: So just to dig into that  
9 even a little further, one thing you should be  
10 aware of is that we are looking at rulemaking  
11 in this area, so the specific rules that you're  
12 talking about are those under S-X that require  
13 companies to provide the financial statements  
14 of others that might be material. And while  
15 that is generally something that public  
16 companies spend a lot of time on and are  
17 interested in, it's actually something that the  
18 private companies think about a little bit too,  
19 because what they are doing is that they know  
20 that if they get acquired by a public company,  
21 which is often the way they'll have liquidity,  
22 that the financial statements that the public  
23 company will need to include in its filing will  
24 have to meet the rigor of Reg. S-X 3-05, and that's  
25 pretty expensive.

1 And so private companies will  
2 sometimes prepare the financials anticipating  
3 that because they know that that will make them  
4 a more attractive sales target, and so that  
5 this rule imposes costs, not just on the public  
6 sector, but also on private companies that are  
7 looking at it prospectively.

8 We are looking at the complexity of Rule  
9 3-05, looking at can we clean this up a little  
10 bit? Half of our financial reporting manual is  
11 probably interpretations of this particular  
12 rule.

13 And we're also looking at -- the last  
14 point you were talking about the pro formas and  
15 are they meaningful? So right now, the pro  
16 formas that are required by this as the rule  
17 said, say that they should give effect to the  
18 transaction as if it occurred at the beginning  
19 of the last fiscal year and just give effect to  
20 the accounting changes that would take place  
21 because of the transaction.

22 But most transactions have a lot of  
23 synergies with them. They have other effects.  
24 And so the marketplace, if they're trying to  
25 understand the deal and really understand

1 what's going to happen, would not limit  
2 themselves to just looking at the accounting  
3 effects, so we will, in our rulemaking, ask  
4 comments about are there other things that  
5 should be in those pro formas?  
6 Can we include in some way the  
7 reasonably estimated effects of the transaction  
8 that go beyond just the accounting effects so  
9 that they might be more useful, and people  
10 would actually kind of go back to them and see  
11 the value in those pro formas and get some  
12 information that could be valuable there.

13 So we hear you, and this is a rule-  
14 making. I'm sure Chairman Clayton's comments  
15 on the record here probably mentions this as one of the  
16 capital formation items that we're looking at.

17 We can expect something in the new  
18 year in this area in terms of a proposal. We  
19 really, really value comments from the group,  
20 in terms of your experience and what you think  
21 of the proposals that are out there without a  
22 shadow of a doubt. Thanks.

23 MR. HINMAN: One of the things,  
24 before we move onto maybe another round, we  
25 also are being -- getting very close to putting

1 on the request for comment on the quarterly  
2 reporting, and so, Jason, I just wondered if  
3 you had any thoughts. Right now, it's one size  
4 fits all. If you join the public sphere,  
5 you're doing quarterly reporting.

6 We are asking a wide range of  
7 questions around that in terms of, you know, is  
8 that the right cadence for every company, and  
9 does that in any case drive a little bit of  
10 short-term thinking? But that would be  
11 terrific to hear what your clients are thinking  
12 about the quarterly reporting system they face  
13 if they became a public company.

14 MR. PLOURDE: Yeah. I haven't taken  
15 a pulse of a lot of companies, but they're  
16 certainly intrigued by some of the ideas that  
17 have come out, and certainly getting quarterly  
18 reports done is a costly endeavor. It speaks to  
19 the controls that you need to have, even absent  
20 the auditor attestation.

21 But whether or not that's a  
22 contributor to short term is a broader topic, I  
23 don't know, but certainly interested in  
24 it. A lot of companies will provide that  
25 information anyway and compile it, because it's

1 not just used for public purposes.

2 You know, internal management uses it

3 to gauge their business, to determine people's

4 compensation. So a lot of companies would

5 probably voluntarily provide more of it, but I

6 think in the smaller reporting company space

7 and in the emerging growth company space, there would be some

8 interest in scaling that back.

9 You know, there's already a

10 patchwork. The former private issuers don't do

11 quarters, exempt offerings clearly do not,

12 so -- and so the more alike that the smaller

13 reporting companies are to things that get

14 exempt offerings, and I think the data is a

15 little mixed on whether or not those companies

16 are closer to the other larger accelerated

17 filers or not, but I think this is an avenue

18 worth pursuing, and I think our clients support

19 at least looking at it.

20 But that some form of,

21 quarterly or even more frequent reporting to

22 investors will still happen, even if there's

23 not a statutory need to do so.

24 MR. HINMAN: Right. And what we were

25 trying to do is just ask the questions, because

1 we don't know either exactly how everyone look  
2 at this, so we have a very open mind about this  
3 and we're really just looking for comments.

4 MR. PLOURDE: Yeah. I think that's  
5 the one that has the ability to be big. You  
6 talk about some of these things with pro forma,  
7 and it's hard to say that that is really  
8 keeping people on the sidelines. But something  
9 where there was less rigorous quarterly  
10 reporting starts to sound like a video rider  
11 [sic].

12 MS. ZEPRALKA: Okay. So we don't  
13 have time to do a full round through, but we've  
14 gotten a few questions from the audience, and a  
15 couple of them tie back, I think, to something  
16 that more than one of you had mentioned today  
17 as to the idea of using intermediaries or  
18 finders to access capital.

19 One question we received is whether  
20 any of the entrepreneurs used an intermediary  
21 in raising capital. I don't know if, Peter, if  
22 you know if you used a broker dealer for any of  
23 your 506 rounds?

24 MR. HARTEN: Yeah. The platform we  
25 used, which was Seed Invest, offered both

1 consecutively, at the same time, a Regulation CF offering  
2 and a Rule 506(c) offering, so that's the intermediary we  
3 used.

4 MS. ZEPRALKA: And then we -- there's  
5 definitely some interest in this from the  
6 questions we're receiving, so maybe, Catherine,  
7 if you wanted to started this off. I know you  
8 have views on the need for finders that may not  
9 be registered broker dealers and how that could  
10 impact the companies you're working with.

11 MS. MOTT: Yeah. This is reflective  
12 of the dynamics of the market itself. There  
13 are some high net worth individuals that just  
14 want to remain anonymous, and finding those  
15 people are a challenge, and it's really a  
16 relationship business.

17 I know myself, I get tons of things  
18 from brokers, and I just delete, delete,  
19 delete, because I don't have a relationship  
20 with them, and they're just trying to push  
21 something on me, is how I view it.

22 Rather than someone who would  
23 introduce me to someone that I know and I  
24 trust, and that's why syndication occurs and  
25 it -is because you get an introduction.

1        So I think that, you know -- you  
2 know, having access to those who want to remain  
3 anonymous would be valuable, and finders could  
4 serve that purpose.

5        The other thing is -- again, I go  
6 back to I think about our -- the Midwest. This  
7 is kind of critical thing for us, is access to  
8 private capital, is how things grow.

9        I have an example that there's a  
10 multi-billionaire that moved to Pittsburgh,  
11 fell in love with Pittsburgh after filming a  
12 movie there, and brought his family there, and  
13 what I find interesting about him is he is  
14 putting money into the community, but what we  
15 haven't talked about are lifestyle companies.  
16 Companies that will never go public. Companies  
17 that may never be acquired or may eventually  
18 end up in a rollup after multiple years of  
19 growth.

20        You know, we haven't addressed that  
21 and how they get the capital they need. And  
22 high net worth individuals do a lot of  
23 investing in lifestyle companies, and  
24 structuring the opportunity. And this  
25 individual has done that. He's come into town.

1 He's -- through an introduction to someone.

2 Now, I don't think it was -- I don't think it

3 was compensated, but it was definitely an

4 introduction, created a new franchising

5 opportunity.

6 And then also invested in an organic

7 farm, because now everyone is interested in

8 the local, you know, farm to table and farm to

9 restaurant and farm to home, so those are the

10 kinds of things that happen because of

11 introductions.

12 MS. ZEPRALKA: Wayne or Aaron, did

13 you want to say anything further on the finder

14 concept?

15 MR. EMBREE: Sure. And this is a

16 terribly slippery slope. The regulation of

17 finders is one of those things that's really

18 important from the perspective of both the

19 investor, as well as the entrepreneur, because,

20 again, if there is shielding there, you don't

21 really know who you're taking money from.

22 We actually -- we're talking to a

23 company that is receiving money from a Chinese

24 investor through a Chinese intermediary with no

25 paper. Is everybody good with that? Because

1 we're not.

2 And so it becomes -- it's a real

3 challenge, and we've seen individuals who are

4 finders who, you know, create staffing fees

5 that would -- have embarrassed Lehman

6 Brothers, and so it's really difficult for

7 entrepreneurs to understand exactly how a lot

8 of these relationships work, how to make sure

9 that they're not getting stuck with a long tail

10 on a financing, you know, who is actually

11 responsible and accountable for what, and how

12 do you make sure that you stay out of jail.

13 And I mentioned this on a call, that

14 two prior venture fund managers that I know of

15 are both serving time in jail for misleading,

16 misrepresenting investors. Couldn't happen to

17 two better people, but it's one of those things

18 where, you know, even people who claim to be

19 part of the, you know, organized framework can

20 fall afoul of the law, either intentionally or

21 unintentionally.

22 And so it's one of those things, I

23 think, the regulations serve a good purpose,

24 but to Catherine's point, finding a way to find

25 a middle ground is really important, and I know

1 you have a panel on this later, because -- on  
2 women and minorities.

3 Because one of the things that is  
4 causing a real problem in this country with  
5 respect to investing in women and minority  
6 businesses is the perception of just sort of  
7 getting up on the step, just getting started  
8 and finding ways that we can increase the, both  
9 the education and the availability of  
10 opportunities for women and minority investors  
11 to invest in other, you know, women and  
12 minority businesses, I think is really  
13 critical, because the statistics are awful.

14 You know, less than two percent of  
15 all venture capital go to women founders. Less  
16 than a half percent go to minority  
17 entrepreneurs. Close to half of our portfolio  
18 were founded and are led by women or  
19 minorities, and we don't think that's good  
20 enough.

21 But, you know, there's got to be  
22 other sources, so I think balancing a  
23 regulation with also kind of a social purpose  
24 has some merit.

25 MS. ZEPRALKA: Do you want to do --

1 any of you -- I don't want to put you on the  
2 spot with a lightening round, but if any of you  
3 had thoughts of particular changes you would  
4 like to see the SEC consider, I'll just kind of run  
5 down the line.

6 MR. PIECIAK: Well, I'll just start  
7 with a couple of things the state's securities  
8 regulators are focused on or interested in, or  
9 I'm interested in. I should just speak for  
10 myself at this moment, but that I think the  
11 states and the SEC can work on.

12 Certainly, the secondary trading  
13 space. I think there's certainly populations  
14 of people that have trouble selling investments  
15 or whether it's startup companies with  
16 employees, things of that nature.

17 We've taken the lead in trying to  
18 modernize this old manual exemption into a more  
19 modern mechanism through OTC, which I think has  
20 worked well, but I think there's additional  
21 work that we could do there.

22 We've talked about the accredited  
23 investor definition, and obviously state  
24 regulators have strong feelings on that. I  
25 think any type of expansion to other types of

1 qualifications, I would just consider whether  
2 investment limits are something to also  
3 consider with that, because I think the  
4 accredited investor definition is both  
5 protecting people from, you know, insolvency,  
6 if you will, in making bad decisions that lead  
7 to bad financial outcomes for them.

8       So certainly, there's an element of the  
9 amount of wealth that they have, but then also  
10 that translates into sophistication. So I think  
11 the sophistication piece is there potentially  
12 for some of those other criteria. Just think  
13 about how we can protect them potentially from  
14 making a bad financial decision that leads to  
15 bad financial consequences for them and their  
16 company.

17       MS. ZEPRALKA: Thank you.

18       MR. HARTEN: I just wanted to  
19 emphasize some of the points that we heard from  
20 the other panelists about the difficulty that  
21 sometimes small business owners have with  
22 finding expertise in the legal areas and the  
23 financial piece.

24       And one part that really helped GoSun  
25 in our, I guess, venture would be to have a

1 database that was publicly available of experts  
2 in finance or law, that was individuals that  
3 were willing to help small businesses.

4 MS. PICKER: So speaking to  
5 regulation crowdfunding, I think the  
6 advertising regulations are so difficult for us  
7 to understand. It's really how to know how to  
8 sell a loan or advertise their own offerings.  
9 It's very complicated. So I think that is  
10 something that should definitely be addressed.

11 And then I'm on the fence about this,  
12 but, you know, debt offerings are very  
13 difficult in Regulation Crowdfunding,  
14 because -- so you have to do a series of notes,  
15 and people in this audience want to know, but I  
16 think that should probably also be addressed.

17 Sometimes debt is better than equity,  
18 but Regulation Crowdfunding is kind of forcing  
19 us down that equity path. I think that's kind  
20 of the two things.

21 MS. MOTT: Thanks. One is I really  
22 appreciate having this opportunity to be in the  
23 Midwest and profile the Midwest, and I just  
24 want to say thank you, and thank you for your  
25 thoughts about how regulation impact the middle

1 of the country. Not just New York and San  
2 Francisco and Boston. We really thank you for  
3 that.

4 The only thing I would add is someone  
5 already alluded to this is that managing  
6 portfolios is a challenge because of the lack  
7 of liquidity. I mean, we really have to rely  
8 on M&A. That's it. That's our option. You  
9 know, and I appreciate your careful thoughts on  
10 that, too. Thank you.

11 MR. EMBREE: Just real quick, I need  
12 to echo Commissioner Clayton's comments on  
13 ability. There could be an educational  
14 exemption, so a qualified education program  
15 that individuals could go through that need  
16 attest for validation, and then, you know,  
17 having worked in a legislature many years ago,  
18 I know how difficult this is, but finding ways  
19 to harmonize the regulations, so stripping away  
20 the accumulated scar tissue, that's a -- you  
21 know, a Herculean task, but it would be one  
22 that would pay dividends.

23 MR. SHANE: I guess I would make a  
24 broad philosophical question, which is the  
25 value of what investor protection actually is.

1        So if I look at all the data and I  
2 look at my own personal experience, half of the  
3 investments will go to the value of zero, and  
4 none of those or virtually none of those go to  
5 anything you can protect me from. Literally,  
6 there's no customer. The technology doesn't  
7 work. There's a competitor that comes in and  
8 destroys the company, and the cost of the  
9 protection, when you can't protect against the  
10 things that really drives investors to zero,  
11 needs to be balanced against the efficiency of  
12 the market.

13        MR. SEAMON: A few items on my list,  
14 some of which we've talked about today, but  
15 some others: Expanding, testing the waters,  
16 concept for communications in offerings, and  
17 studying the quarterly reporting regime. I  
18 know the staff is focused on that, as well as  
19 in legislation with the JOBS Act 3.0 that's  
20 currently pending.

21        Liberalization around use of forms  
22 and incorporation by reference, and then sort  
23 of a third item being, you know, we're now 13  
24 years on from securities offering reform in  
25 2005, which really, you know, expanded and

1 facilitated capital formation, and I think  
2 revisiting that in terms of how companies go to  
3 market in a, not only internet age, but in the  
4 age of social media, and how we think about  
5 disclosures in that context and how people get  
6 information.

7       And I think the final point, I think  
8 Eve had alluded to this earlier, you know, one  
9 of the things in the Midwest, and we certainly  
10 see this around the country, the lack of  
11 community banking. As was noted, you know, we  
12 saw certainly up to the crisis and in  
13 post-crisis sort of the radical, sort of  
14 failure of a lot of community banks, and it's  
15 been very slows in terms of de novo community  
16 bank growth.

17       We've got a number of de novo  
18 offerings in process for new banks, but it's  
19 very slow going, and so I think to the extent  
20 that the SEC, with sister agencies, such as the  
21 FDIC, can think about how to encourage  
22 community banking, which in many communities is  
23 the lifeblood for capital, for buying  
24 equipment, and starting businesses, I think  
25 would be important.

1 MR. PLOURDE: Yeah, I'm also a big  
2 supporter of the -- looking at the quarterly --  
3 at least asking the questions, taking the pulse  
4 of the constituents about what's working, what  
5 isn't, what could be done better to reduce the  
6 costs and maintain some investor protections.

7 And then this notion of pro forma,  
8 businesses acquired, what kind of financials --  
9 historic financial statements are needed. I  
10 know that that's on the quarter agenda, but the  
11 pro forma and the, you know, financial  
12 statement of businesses acquired was something  
13 that was considered in 2015 and certainly encourage further  
14 exploration on that.

15 MS. ZEPRALKA: All right. Jason gets  
16 the last word. We're out of time. Thank you to  
17 all of you on the panel for a great  
18 discussion and for taking your time to be with  
19 us today.

20 We have another great panel up next.  
21 We're going to take about a ten-minute break.  
22 Please stick around for the discussion of  
23 Capital Formation and Diversity. We're just  
24 going to switch out the tables, and we'll be  
25 ready to go.

1 (A brief recess was taken.)

2 MR. MOSES: My name is John Moses.

3 I'm with the Office of Minority and Women

4 Inclusion at the Securities Exchange

5 Commission. I would like to thank the Division

6 of Corporation Finance for partnering with

7 us on this panel. I thank you also to Chairmen Clayton

8 and the Commissioners for coming to Ohio for

9 this event.

10 I would like to ask all

11 of our panelists to talk a bit about you, including

12 some of the stories that they want to

13 share, so we're going to hear a lot of data,

14 and feel free to, you know, sprinkle that into

15 your remarks as well, but I think there's

16 some -- in some of our pre-panel discussions --

17 there's some really interesting stories, and we

18 would love to have the audience benefit from

19 those as well.

20 So you have full bios for our

21 panelists in your printed materials, but since

22 they're printed and not on your screen, you

23 probably haven't read them yet, so I'm going to

24 ask each of the panelists to please give just a

25 quick introduction -- regarding their

1 background, and we'll go from there.

2 So, Candice, we'll start with you.

3 MS. MATTHEWS: And this is a 15

4 second, right?

5 MR. MOSES: This is a quick one.

6 MS. MATTHEWS: Okay. I am Candice

7 Matthews. I'm the CEO and founder of the

8 Hillman Accelerator. We are a 16-week program

9 that supports women and minority led tech

10 companies. We invest a hundred thousand

11 dollars in each of those companies, and we just

12 finished our second cohort.

13 MS. TAPIA: Okay. I'll try to do 15

14 seconds here. Kimberly Tapia. I'm a serial

15 entrepreneur based out of Columbus, Ohio. I own

16 a commercial cleaning company, a consulting

17 firm, specifically servicing like operational

18 excellence and sigma type projects, and I also

19 own a holding company as well.

20 MR. ANDREWS: Good morning. My name

21 is Brandon Andrews. I am senior consultant at

22 Values Partnerships. Among other things, our

23 agency runs a nationwide casting tour for ABC's

24 Shark Tank.

25 I'm also cofounder of a mobile market

1 research app called Gauge, and spent several  
2 years working in the U.S. Senate on Small  
3 Business Policy. So I'm so excited to be here at the  
4 second Forum.

5 MS. DONAHUE: Hi. My name is Falon  
6 Donahue. I'm the CEO of VentureOhio. We are a  
7 statewide organization that's facilitating the  
8 growth and vibrancy of Ohio's entrepreneurial  
9 ecosystems. Our primary objective is to  
10 increase access to venture and angel capital  
11 for Ohio startup companies.

12 MR. MOSES: So a lot of startups are  
13 worried about their pitchers. Those were pretty  
14 fantastic elevator pitches. I'm honored to  
15 have you all here, and I hope you all are as  
16 excited as I am to hear from our panelists  
17 today.

18 I want to start with a specific  
19 question for each of you, so we can get to hear  
20 a little bit more about some of the unique  
21 experiences and contributions that you might be  
22 able to bring to the discussion today.

23 Candice, I would love to start with  
24 you and just hear a bit about why you started  
25 Hillman Accelerator, how you did it, and what

1 approach you took, and I would love to hear a  
2 little bit more about that \$100,000 investment  
3 as well and why you decided to take that task.

4 MS. MATTHEWS: Oh, that's a big one.

5 All right. So, I, up until I started my own  
6 tech company, Hello Parent, had won in every  
7 regard. I had gotten a scholarship in  
8 economics and statistics, at the University of  
9 Cincinnati. I was great in that space. I did  
10 amazing consulting, but when I started my own  
11 tech company and raised money, I realized that  
12 I wasn't going to get much further than Series  
13 A. That doesn't really happen for people who  
14 look like me.

15 So I raised that money and ran out of  
16 money and realized that I needed to do  
17 something in my space, in my state, to correct  
18 this issue. So my cofounders and I decided to  
19 approach cities, the state, and local  
20 foundations to raise dollars to create an  
21 accelerator to support women and minority-led  
22 tech companies.

23 We hit a lot of resistance in people  
24 saying, "Well, it's not really necessary. Our  
25 numbers look great here." And when you have

1 your own -- just your own qualitative data,  
2 like that feeling you get, or just from like  
3 looking around the room and realizing like  
4 you're the only one there, that qualitative  
5 data isn't always enough.

6       So a State Senator, Cecil Thomas actually put up some funding to  
8 create the Minority Entrepreneurship  
9 Connectivity Assessment. That Assessment kind  
10 of proved that we are a very diverse state, but  
11 we aren't inclusive in all areas.

12       And so with that Ohio Third Frontier  
13 decided to put out an RFP in order to find a  
14 grassroots effort to support the specific area.  
15 So the State of Ohio gave us a \$175,000 worth  
16 of funding, of which my co-founders and I  
17 matched, and we launched our first class, which  
18 was absolutely amazing.

19       There was also another group that I  
20 started kind of prior to Hillman. It was  
21 called the Black Founders Network, just a group  
22 of people that network together. The first 11  
23 of us have raised about, I guess at this point,  
24 about \$45 million over the last three years.

25       And so we saw that there was kind of

1 just truth in the network effect, so that is  
2 kind of the way we've built Hillman. We're an  
3 opportunity accelerator. We give folks better  
4 access to funding networks, better access to  
5 our big codes in our network, and access to  
6 entrepreneurs in residence ("EIRs") and mentors.

7       Going into kind of just one of our  
8 companies that I absolutely love, it's a  
9 company called Prove. They're a progesterone  
10 ovulation test. There are kind of four key  
11 hormones that are necessary to create and  
12 maintain a pregnancy. One of those is  
13 progesterone. There are two other hormones  
14 that's kind of been discovered to be able to be  
15 proven with an at-home diagnostic test. Those  
16 are owned by Clear Blue and First Response. One  
17 is a Proctor & Gamble company. One is a Church  
18 & Dwight Company.

19       They have that in home diagnostic  
20 test to kind of prove a pregnancy. Well,  
21 Prove, our progesterone ovulation test, was  
22 created in the basement of a scientist, a woman  
23 scientist in Denver, Colorado. I met her at  
24 the J&P Morgan biotech showcase. A mom of  
25 three children. She had had seven

1 miscarriages, and no one had really believed in  
2 this thing that she was building.

3       So at the biotech showcase, she gives  
4 her pitch, and I immediately go, "Oh, my  
5 goodness. How many of my friends have had his  
6 problem?"

7       She came up with the idea at home in  
8 her basement, put it on Kickstarter. Raised  
9 \$50,000 through crowdfunding. Passed several  
10 of her regulations for FDA and put it up on  
11 Amazon. In her first year, she made \$200,000,  
12 but we were her first investor. I was the  
13 first person to believe in what she was doing,  
14 and now she's gotten offers from three  
15 multinational companies that are CPG companies  
16 to kind of grow and expand her business.

17       And so it takes more people in this  
18 industry to invest in others and kind of go out  
19 and do the search.

20       MR. MOSES: Great. Thanks for that.  
21 We'll come back to hear more about Hillman and  
22 some of your other cohort endeavors, and also  
23 hopefully you can educate all of us a little  
24 bit more about the difference between an  
25 accelerator and an incubator, two words that

1 get thrown around a lot.

2 I think I also heard EIR in there, so

3 entrepreneurs in residence, right? So if

4 you -- a few key terms and acronyms.

5 So, Kim, you mentioned a few

6 businesses that you started, and it sounds like

7 you're running several of them at least

8 concurrently. Tell us a little bit about how

9 you have financed one or more of those ventures

10 and what -- you know, what worked and what

11 challenges you might have faced.

12 MS. TAPIA: So having an

13 understanding that getting financing would be a

14 bit of a challenge, I actually bootstrapped all

15 of my businesses, with the theory, too -- so

16 specifically with the cleaning company, that

17 was the first one I started. I would describe

18 that as a point of entry business, so it's --

19 again, the thought is, you know, try to get

20 into a specific or open up a specific business

21 that is scaleable in a sense or fairly easy to

22 scale with a minimal startup cost.

23 And then as you scale the business,

24 the cash flow and profit that you make from

25 that specific business, you can put it into

1 funding your other businesses, so that's

2 essentially what I did.

3 MR. MOSES: Great. And you also work

4 in advising other entrepreneurs; is that right?

5 MS. TAPIA: Yes.

6 MR. MOSES: So what kind of

7 challenges come to you through either your

8 individual work or through your experience with

9 another -- I think this one is an incubator,

10 right, so Bunker Labs?

11 MS. TAPIA: Yes.

12 MR. MOSES: Which is focused on

13 veteran entrepreneurs. What kind of challenges

14 come to you in terms of these -- that these

15 entrepreneurs face?

16 MS. TAPIA: Sure. So, yeah, so

17 Bunker Labs is a national non-profit that helps

18 veteran entrepreneurs throughout whatever space

19 they are with starting a business. They've

20 been in business for a number of years, wanting

21 to expand their business.

22 Our specific chapter here in Columbus

23 are made up of three separate veterans. I am

24 the entrepreneur city leader for the specific

25 chapter. A majority of what I see come across

1 with the veteran entrepreneurs is that thought  
2 process of, "Hey, how do I get access to  
3 capital?" And there's a number -- a number of  
4 means of being able to do that, depending on  
5 the industry, too.

6 I would make the point that the  
7 biggest challenge, though, is operationally,  
8 right? So bringing their product to the market  
9 or bringing their services to the market and  
10 ensuring that it's a viable product.

11 Wayne Embree, who was on the panel a  
12 little bit earlier, mentioned something that I  
13 will also echo, is capital is one thing, right?

14 Obviously, you need money or you  
15 need financing to run a business or to start a  
16 business, depending on what it is. More than  
17 anything, the ability to operate the business  
18 and execute your specific product or service is  
19 the most important piece on top of capital.

20 MR. MOSES: Great. Thank you.

21 Brandon, so, first of all, thank you  
22 to Brandon for helping put this event together,  
23 but also one of the reasons I'm excited to hear  
24 from you, Brandon, is you really have a  
25 national perspective on minority

1 entrepreneurship, so, like us, you're based in  
2 DC, but you also spend a lot of time outside of  
3 DC, and I think you've just came here from  
4 California.

5       So what do you see when you travel to  
6 different regions of the country in terms of  
7 the amount of energy, the amount of interest in  
8 entrepreneurship or differences in terms of the  
9 types and quantity of capital that is -- that's  
10 going to minority enterprises? So what do you  
11 see specifically here in the Midwest?

12       MR. ANDREW: Yeah. Thanks so much,  
13 John, and thanks again to the Commission for  
14 having this event and for having this specific  
15 panel as part of the conversation. I think  
16 it's a great step forward.

17       I get very aggressively pitched by  
18 several thousands of entrepreneurs all across  
19 the country every year. I don't really care  
20 anything about entertainment, but I love  
21 connecting with entrepreneurs, hearing their  
22 stories, understanding why they do what they  
23 do. And so that is why I really enjoy the work  
24 that I do with Shark Tank.

25       I can say unequivocally that that

1 spark of innovation and that the grip that you  
2 need to grow a business, those attributes exist  
3 in every community I've been to, every culture,  
4 every gender. I've been all around the  
5 country, top to bottom, left to right; however,  
6 the resources that those entrepreneurs need,  
7 both in terms of education and also in terms of  
8 capital, aren't always there.

9 Quite frankly, whether you're white,  
10 black, male or female, a native, etcetera,  
11 access to capital is the number one issue that  
12 entrepreneurs come to me with, whether we're at  
13 casting calls or whether I'm at business  
14 conferences or at events similar to this.

15 I definitely agree with Kim that  
16 execution is always the most important piece,  
17 and so figuring out how to take your idea and  
18 actually make it into something is always going  
19 to be the most important predictor of success;  
20 however, for a lot of entrepreneurs, getting a  
21 hold of the capital necessary to actually  
22 create whatever that product or service might  
23 be and actually bring it to market is a  
24 significant issue.

25 And for diverse entrepreneurs, for

1 women, it's even -- it's an even greater issue  
2 because of historic socio-economic issues that  
3 have been there and also structural issues that  
4 remained, although progress has been made.

5       What I see across the country is  
6 entrepreneurs at our casting calls looking for  
7 whatever opportunities they can get, so they're  
8 looking to raise capital in whatever way that  
9 they can to be able to move their business  
10 forward to get to the next place, to take their  
11 idea and actually make it into something, and  
12 with regards to some of the new opportunities  
13 that are there, crowdfunding, et cetera, that  
14 have been empowered by the JOBS Act, it's been  
15 exciting for me personally to see the growth of  
16 these opportunities, because I was in the  
17 United States Senate when the JOBS Act was  
18 written. I was there when President Obama  
19 signed it into law, and it's been great to see  
20 over the past couple of years crowdfunding,  
21 equity crowdfunding in particular, fully  
22 implemented and seeing entrepreneurs now have  
23 other options that they didn't have previously.

24       So seeing entrepreneurs, whether  
25 they're white, black, male, or female, being

1 able to raise money from friends and family and  
2 fans of themselves and in their businesses is a  
3 great step forward, and it's something that I  
4 see entrepreneurs taking advantage of more;  
5 however, it's also something that a lot of  
6 entrepreneurs are still hesitant about because  
7 of how new the opportunities are.

8       And so if there's, you know, perhaps  
9 any one thing that we could talk about in term  
10 of next steps from this conversation is I think  
11 investor education, but also education for  
12 entrepreneurs will be incredibly helpful in,  
13 not only stopping fraud, which of course the  
14 SEC is charged to do, but also helping  
15 entrepreneurs decide whether or not these new  
16 options are right for them.

17       Because I think a lot of  
18 entrepreneurs are, quite frankly, ruling out  
19 these crowdfunding options, just because they  
20 don't understand what's involved in taking --  
21 potentially taking advantage of it for them and  
22 for their businesses.

23       But, yeah, looking forward to the  
24 conversation of what I see across the country,  
25 and thanks, again, John, for having me.

1 MR. MOSES: Thank you.  
2 So, Falon, you run VentureOhio, so  
3 tell us a little bit about the role of  
4 VentureOhio in attracting capital and  
5 entrepreneurs in Ohio and maybe also alluding  
6 to something that we've heard about in the last  
7 panel, in keeping those entrepreneurs based in  
8 Ohio as they expand. And are you seeing any  
9 particular trends or individual stories that  
10 you would like to share about minority or  
11 women-founded firms that you've come across in  
12 your work?

13 MS. DONAHUE: Sure. So VentureOhio  
14 was formed about five years ago, because Ohio,  
15 like all of the Midwest, was really in a tough  
16 spot when it came to our startup communities.  
17 In particular, around the 2013 timeframe when  
18 VentureOhio was formed, Dodd Frank had passed  
19 and the Volcker Rule was implemented which made  
20 it so financial institutions could no longer  
21 invest in venture capital firms.

22 It didn't make a splash nationally  
23 because in these developed ecosystems on the  
24 coast, there's an abundance of capital. We  
25 have a lot of entrepreneurs who have seen

1 success that reinvested in their community, and  
2 those entrepreneurs reinvest in their community  
3 and so on and so forth.

4 But in these new and relatively  
5 underdeveloped communities like Ohio, like  
6 Columbus, like all of the broader Midwest, we  
7 just don't have those developed ecosystems and  
8 that access to capital. So banks played a  
9 really key role in the ability to conduct due  
10 diligence on the new opportunities, whereas,  
11 you know, these individuals in family offices  
12 and Ohio in the Midwest didn't have the risk  
13 tolerance for venture capital. It was a fairly  
14 new idea to them, and they simply didn't have  
15 the ability to conduct diligence on that.

16 So when the banks gave us a vote of  
17 confidence, that helped the venture capital  
18 firms continue to raise their funds.

19 We also had a state-backed  
20 fund called the Ohio Capital Fund that was  
21 running out of capital during that time. This  
22 fund also was putting money into these funds  
23 and gave these institutional investors a vote  
24 of confidence to invest in these funds and a  
25 few tax credits that had run out.

1        So the Ohio investment community, for  
2 the first time, came together to form this  
3 entity, the Ohio investment community, much like  
4 all the other cities in Ohio. And other  
5 communities in Columbus, really didn't have  
6 much of a need to get together before on a  
7 statewide basis, but they decided to come  
8 together to have one unified voice to address  
9 our concerns to both local, state and federal  
10 government.

11        So this community came together, and  
12 from there we decided we could do something much  
13 bigger than this and talk to our government  
14 about things that are impacting  
15 entrepreneurship.

16        So we started conducting research.  
17 What are we doing well? How can we broadcast  
18 that to the world? How can we talk about the  
19 opportunities in Ohio? Yes, we have a long way  
20 to go, but this scarcity in opportunity there,  
21 low valuations here, and just because we don't  
22 have a lot of capital here doesn't mean we  
23 don't have tremendous talent here.

24        We have talent and infrastructure to  
25 build these world-class companies, and they're

1 being built every day. So we started to  
2 broadcast that out to the world. We put out  
3 research. We talked about our success stories.  
4 I personally travel a lot to  
5 evangelize the Ohio opportunity, and my job has  
6 gotten a lot easier over the last five years.  
7 You know, when we started doing this a few  
8 years ago, I would go to these events in  
9 Silicon Valley, and from my name tag, you could  
10 see VentureOhio. I'm also, you know, about a  
11 foot shorter than everybody else there, so  
12 getting anyone to talk me was incredibly  
13 difficult.  
14 At best, they would, you know, have a  
15 conversation with me while they're looking over  
16 my shoulder, trying to find someone from Sequoia  
17 to actually have a conversation with.  
18 But you fast forward a few years, and  
19 we've had a lot of really incredible wins here  
20 in Ohio.  
21 Drive Capital moved here. That was a  
22 big win for us in Columbus. We've had a couple of  
23 Sequoia investors who said, you know, "We're  
24 going to put a stake here in Columbus, Ohio and  
25 bet our future on that."

1        Cover my Meds here in Columbus exited  
2 for an exit value of \$1.4 billion. That was a  
3 huge win for us. It shows that it's not just a  
4 hypothesis anymore, but this is a real  
5 opportunity. We really do have talented people  
6 here, an infrastructure to build these great  
7 companies. We have smart cities coming to  
8 Ohio, so it's a lot of really great things  
9 happening here.

10       Written Insurance just got its first  
11 billion dollar valuation. But we still have a  
12 long, long way to go. The Ohio Third Frontier  
13 and other entities have supported organizations  
14 like Hillman and others, but I still think we  
15 have a long way to go, and statistics that  
16 Wayne mentioned earlier with access to capital,  
17 in Ohio, we still receive less than half a  
18 percent of all venture capital last year. It's  
19 pretty dreary.

20       And African-Americans founders  
21 receive less than one percent and women less  
22 than 10% nationally. So -- and Ohio tends to  
23 reflect those same statistics.

24       So we certainly have a long way to  
25 go, but very optimistic. You know, the capital

1 that's being invested in Ohio is increasing  
2 pretty dramatically year over year, so I think  
3 we're doing a lot of the right things. We're  
4 taking some positive steps, but we're still  
5 new.

6 We have about 60 years to catch up to  
7 some of our counterparts on the coast, but  
8 we're very positive that we're moving in the  
9 right direction.

10 MR. MOSES: Thanks for  
11 that.

12 So for each of you, I would love to  
13 hear what you think would be the best way to  
14 share information and to engage with under-  
15 represented entrepreneurs. So we've heard, I  
16 think, a bit from Brandon and a bit from Falon  
17 with respect to the idea of there's - the issues, right, and then  
18 there's the also the awareness, right?

19 So is there a problem with the  
20 regulation, or is there just a lack of  
21 awareness of what's possible and what others  
22 are doing?

23 So, obviously, maybe we could start  
24 with you, Candice. Obviously you meet with a

1 lot of entrepreneurs, under-represented  
2 entrepreneurs when you're considering who to  
3 bring into your cohorts and when you're  
4 networking with other stakeholders.

5 What do you think is the best way for  
6 organizations like the SEC and others  
7 interested in promoting access to capital and  
8 capital formation to reach under-represented  
9 entrepreneurs? Are there methods, events,  
10 other sort of ways to engage?

11 MS. MATTHEWS: Well, I think this is  
12 an excellent event. I think being invited to  
13 more events, I think is number one. I love to  
14 learn, and I think every entrepreneur loves to  
15 learn, so educating us on different types of  
16 financing and ways to bring capital together.

17 As I said out in the audience earlier  
18 today, I listened to some words that sounded  
19 like Greek to me, and I don't know what I don't  
20 know, but today I learned I don't know a lot,  
21 and that's just the truth. It's the truth.  
22 And here I am saying that I'm, you know,  
23 managing a fund, and I have a lot more to  
24 learn.

25 My mentors are from the Midwest. I

1 need to import more mentors from other areas.  
2 So if there's anything that I think that the  
3 SEC could do is creating relationships with  
4 those who need more education, because if I  
5 learn, I'm going to be a sponge, and I'm going  
6 to then teach that to other people.

7       It hasn't taken me long to get from  
8 having my little tech company, Hello Parent, to  
9 where I am right now and the portfolio that I  
10 have. Just imagine what you can create by  
11 educating just one person. You could have a  
12 group of 10 to 20 people, and it would be huge.

13       I read a statistic yesterday that  
14 there are just 30 African-American venture  
15 firms that specifically invest in other  
16 African-Americans, just 30, but most of them  
17 are at the pre-seed level. What about the  
18 others?

19       So getting help with figuring out how  
20 we get beyond that, I think would be one, but  
21 education would be the best bet, I think.

22       MR. MOSES: Okay. Thanks for that,  
23 and I think that, you know, like in any  
24 industry, it's, you know, it's useful to have  
25 some barrier language, so we had some

1 attorneys, right, so that's -- which is great,  
2 but -- and that was the focus of the previous  
3 panel, but you always threw out a few things. I  
4 already called you out on EIR --

5 MS. MATTHEWS: Too late. Two words,  
6 it could be entrepreneurs in residence or executives in  
7 residence.

8 MR. MOSES: Okay. Fair. Tell me --  
9 and while we're on the topic of definitions,  
10 can we go to incubator and accelerator. Do we  
11 feel like we all can give a confident  
12 definition or distinction between the two? Do  
13 you have a -- I think I understand that  
14 accelerators are usually more -- usually take a  
15 stake right in the company and are often for  
16 profit, but not always; whereas -- and have a  
17 cohort. That's what I've heard --

18 MS. MATTHEWS: I think no one knows.

19 MR. MOSES: No one knows.

20 MS. MATTHEWS: I think it's kind of  
21 like social impact investing, right? I think  
22 that no one really -- because we don't have a  
23 specific language for it yet. In my opinion,  
24 you're incubating an idea. You're accelerating  
25 a company. That's what I think.

1       Whether or not there's capital  
2 involved, I think depends. I think most  
3 entrepreneurs would want the capital, but I  
4 think one is ideation, and one is an actual  
5 company that is already growing, and we're  
6 accelerating the growth of that company.

7       MR. MOSES: Okay. Thanks. So we can  
8 feel comfortable --

9       MS. MATTHEWS: What was that?

10      MR. ANDREW: Sounds like a good  
11 definition to me.

12      MR. MOSES: Okay. Great. And so,  
13 Kim, what about -- what about you? So you said  
14 that you -- so you worked with at least one.  
15 Now I can't remember. Either an incubator or  
16 accelerator at Bunker Labs --

17      MS. TAPIA: We consider ourselves an  
18 incubator.

19      MR. MOSES: Incubator. Okay. Great.  
20 And you also have a network of companies you  
21 work with. What is the best way to engage with  
22 minority and other under-represented  
23 entrepreneurs?

24      MS. TAPIA: So I was talking to  
25 Candice about this a little bit earlier, and

1 this is just me being business minded, I know  
2 it's a government agency, but might have to  
3 re-evaluate like a brand, right, or rebrand,  
4 make it more accessible to entrepreneurs. I  
5 will tell you that -- so I've been in the Army  
6 14 years. The whole little symbol doesn't  
7 scare me, but to some budding entrepreneurs  
8 that might be a little bit intimidating, and  
9 they might have a perspective or perception of  
10 what the SEC actually does.

11 So I would say -- I mean, she stole  
12 my first part, which was education, which I'm  
13 going to -- I'm going to harp on as well. I  
14 don't know if the SEC has an education component where  
15 they can help put out specific information.

16 Again, that's controlling the  
17 narrative and making it accessible to  
18 entrepreneurs. And not just in the tech space,  
19 but, you know, Joe Skippy who wants to start a  
20 landscaping company.

21 MR. MOSES: And -- thank you.

22 Brandon, so you scout for Shark Tank.

23 You also, I know, speak at a lot of events.

24 You were just at another -- this one, I know,  
25 because it's incubators is in the name, but

1 you're at an incubator at Howard University, I

2 think last week or the week before.

3 Is that a place to reach people, or

4 do you have other ideas about how to engage

5 with under-represented entrepreneurs?

6 MR. ANDREW: Well, sure. I think the

7 easiest way to start is by reaching out to

8 communities like Hillman and like Bunker and

9 VentureOhio that exist all across the country,

10 and, quite frankly, you can just send me an

11 e-mail, and I'm happy to send you a list of

12 folks around the country that are working in

13 the space.

14 I know Mr. Meeks wrote a letter a

15 couple months back, and they're submitting some

16 potential names of folks around the country

17 that he would like to connect with, but put us

18 to work. You know, we're here on this panel.

19 We're all invested in moving this conversation

20 forward, but also getting resources into the

21 hands of entrepreneurs across the country, and

22 so just ask us, and we'll be happy to send you

23 a list of folks from Miami and LA, and, of

24 course, in Silicon Valley and from the upper

25 Northwest and from New York and from the

1 Midwest and from the South.

2 But there are communities all across  
3 the country that recognize that the wealth gap  
4 is a real thing, and that if we don't change  
5 the trajectory for communities of color, in  
6 particular, but also for women, then these  
7 communities are going to be left behind  
8 permanently, you know.

9 By 2053, if all things remain the  
10 same thing, the, you know, median net worth of  
11 an African-American household in the United  
12 States is going to be zero, and it's already  
13 not very high.

14 And by 2073, the same is going to be  
15 the case for Latinx households in the  
16 United States. Their net worth will be zero  
17 and being able to take advantage of new  
18 opportunities to raise capital from friends,  
19 family and fans and also new opportunities to  
20 potentially invest in startups pre IPO is not a  
21 get rich quick scheme, but it is a potential  
22 wealth building opportunity, and at the very  
23 least, it is an education opportunity and an  
24 opportunity to say to people these  
25 opportunities are for you. This world is for

1 you. This world of business. This world of  
2 investing. This world of startups is for you,  
3 and I think that's an incredible step in the  
4 right direction.

5 So, yeah, definitely happy to send  
6 you a list, and I think the other piece is the  
7 SEC has, for a long time, had investor  
8 education, but now, although you've always had  
9 investor education for financial advisors and  
10 always wanted to prevent fraud there, now that  
11 you have non-accredited investors being able to  
12 invest in a different way, I think there has to  
13 be a shift in potentially the way that the  
14 marketing is done, because, prior to  
15 a couple years ago, you were primarily doing  
16 investor education for equity investment for,  
17 you know, maybe three percent of US households  
18 in any given year.

19 Now you're doing it for a hundred  
20 percent, so it's understandable that it's going  
21 to take time and effort to get your marketing  
22 and outreach, et cetera up to speed; however I,  
23 think that work definitely has to be done. We  
24 would love to be a part of it moving forward.

25 MR. MOSES: So a quick follow-up,

1 you -- again, with the volume of companies that  
2 you interact with, what do you think is a  
3 common misconception? I think you -- maybe  
4 there's more that you can unpack about  
5 misconceptions around crowdfunding. We talked  
6 about education, but what are the -- maybe you  
7 could get a specific example of something that  
8 you think some diversity entrepreneurs are --  
9 maybe are not as familiar with that would be  
10 beneficial for them to know, maybe -- whether  
11 it's crowdfunding or something else.

12 MR. ANDREW: So the number one thing  
13 is entrepreneurs -- and this is both for  
14 entrepreneurs and investors, they don't think  
15 that they either want to raise enough, so  
16 there's this misconception that in order to run  
17 an equity crowdfunding campaign in particular,  
18 the space is a little different because it's  
19 been out there for a while. People have a bit  
20 of a better understanding.

21 But for equity crowdfunding in  
22 particular, a lot of entrepreneurs think, well,  
23 I'm not trying to raise, you know, \$600k, so I  
24 don't qualify for this. In the same way on  
25 the investing side. A lot of people don't know

1 you can invest for as little as sometimes \$50,  
2 just depending on the platform and how the  
3 business -- how the issuer, you know,  
4 structures their raise.

5 But I think the first step is letting  
6 everybody know that this opportunity is for  
7 them, both on the investor side and on the  
8 entrepreneur side, and the only way to do that  
9 is just to have the education out there to have  
10 the message out there to do more events like  
11 this and then to use your social, use your  
12 digital channels, use your other marketing  
13 channels to be able to share that information  
14 with folks. I think that's the number one  
15 thing.

16 The probably second misconception  
17 from an entrepreneur side outside of that is  
18 not understanding or reticence about the SEC  
19 filing that has to happen.

20 And so I know there's a variety of  
21 proposals around filings and what's necessary  
22 and the amount of time it takes, et cetera. I  
23 actually think that given the fact that it's a  
24 government process and having worked in  
25 government, that the initial process was much

1 more streamlined and much more efficient than I  
2 would have expected it to be. So kudos to the  
3 SEC for doing a good job initially; however,  
4 there's certainly, I think, improvements that  
5 can be made there, and beyond that,  
6 improvements in educating people about what  
7 goes into the filing and also the fact that all  
8 of the platforms are going to, for the most  
9 part, help you do it.

10       You don't have to do it on your own.  
11 All of those things, I think, would be helpful  
12 to entrepreneurs that are considering taking  
13 advantage of some of these new opportunities  
14 that are there.

15       MR. MOSES: Thank you, Brandon.

16       So, Falon, we'll come to you in a  
17 second, but I want to pause and see if Chairman  
18 Clayton has a comment or question.

19       CHAIRMAN CLAYTON: I do. Thanks, John,  
20 and thanks all of you.

21       Look, I think -- like I did with the  
22 last panel, I think a job, and I think my  
23 colleagues -- I think a job of regulator like  
24 the SEC is to see an issue. You try to frame  
25 an issue, and then you try to find solutions.

1 Based on that, I think this is -- events like  
2 this help a lot, but I -- as John knows, I like  
3 to be direct about this issue.

4 The stats are not good. Not good at  
5 all. What is driving the stats that we have --  
6 that -- we used the words asymmetry and  
7 geography earlier. You know, we have  
8 asymmetrical capital, lots on the coast. Not  
9 nearly as much as we would like in the Midwest.

10 What's driving the asymmetry in  
11 minority and women-owned business versus the  
12 rest? I think there are a number of factors,  
13 but I think you guys are highlighting a factor  
14 that is very important.

15 Bill started this conference by  
16 mentioning that my grandfather, when I was a  
17 young person, took me around to see basically  
18 how the economy operated in a tangible way.

19 Now, a small town, but you saw  
20 auctions. You saw small businesses. You saw  
21 them finance themselves, et cetera.

22 Those experiences, for cultural  
23 reasons, were not provided to minorities and  
24 women to the extent they were provided to  
25 someone like me. That's a fact.

1 Fact number two is those experiences  
2 are very difficult to find in stores. Marrying  
3 a business desire to obtaining capital, I don't  
4 know many courses in that until you're very,  
5 very old, but, you know, if you don't have an  
6 appreciation for that as early as possible in  
7 your career, you're behind.

8 So what you guys have all said,  
9 learning things, like Kim highlighted cash is  
10 king, right? Let's get myself going with the  
11 business that generates cash, so I can use cash  
12 to make -- that -- I sure didn't learn that in  
13 high school, but, you know, you do learn that  
14 tangible type of thing.

15 What can we as an agency do to bridge  
16 that gap?

17 And, Brandon, you're right. We long  
18 focused on the investor in small businesses as  
19 opposed to the generator of small businesses,  
20 and I think we can do more to help people  
21 understand the process of marrying an idea to  
22 capital.

23 So I just want to say that's how I'm  
24 looking at this. I think places like The Ohio  
25 State University can do more in helping

1 entrepreneurs bridge that gap to finding  
2 capital, because it is -- it is something that  
3 you almost learn experientially. You learn  
4 from affinity. We don't have a great deal of  
5 learning about it from either your regulators  
6 or educational institutions.

7       We should improve, but I think we  
8 need to recognize that that's a fundamental  
9 issue here. So thank you.

10       MR. MOSES: Thank you. Any other  
11 questions from the Commissioners at this point?

12       COMMISSIONER ROISMAN: I kind of echo  
13 what the Chairman said. I think -- I'm very  
14 happy to hear with respect to -- we talked on  
15 the previous panel about this as well and heard  
16 a little bit from Peter as well. People who start  
17 businesses want to look to places to have more  
18 information, and the government, we kind of  
19 look at things, mostly post -- at the post  
20 phase rather than the pre phase, and I think  
21 the thing I hear from all of you, which I think  
22 is incredibly important, is we could do more  
23 for the investor education kind of early on.

24       I think the thing that I look for you  
25 guys and everyone else is just tell us exactly

1 what you think would be the most helpful to get  
2 entrepreneurs, you know, more comfortable with  
3 different types of ways they can raise capital.

4       You know, you mentioned this,  
5 Candice, that the litany of terms. I remember  
6 the first time I heard, I just ran to Google  
7 and tried to figure out as much as I could. And  
8 I feel like that's the way for most folks.

9       I think, you know, we have a great  
10 Office of Investor Education that is trying to  
11 help people understand both on the investor  
12 side, but also from the entrepreneur's side, of  
13 what the securities law cover, what are  
14 potential pitfalls, as well as like what are  
15 the accesses to actual investors.

16       So if there's anything specific you  
17 guys think of, it would be really helpful. You  
18 know, we would really like that information.

19       MR. ANDREW: Can I respond? Just  
20 really quickly, you know, recently, the SEC hit  
21 Floyd Mayweather and DJ Khaled with fines  
22 because of their advertising of an IPO campaign  
23 that was considered to be fraudulent, and I  
24 think that was a good step forward.

25       However, to answer your question

1 specifically, I would have loved to have  
2 seen -- and I don't know if you have the  
3 latitude to do this -- but would loved to have  
4 seen Floyd Mayweather and the SEC Office of  
5 Investor Education video saying, "This is the  
6 truth about ICOs, and I got caught up in  
7 something fraudulent, so if you do these  
8 things" -- and they can be the things that you  
9 already suggest for investors, but, "if you do  
10 these things, you can hopefully avoid getting  
11 caught up in something fraudulent."

12 Or, you know, DJ Khaled is coming out  
13 with, "These are the major keys for investor  
14 education. These are the major keys for  
15 avoiding fraudulent IPOs," whatever it might  
16 be, but potentially structuring their deal  
17 where they have less fine, you know, chop the  
18 fine in half and have them be committed, just  
19 like other government agencies require folks to  
20 do community service, their community service  
21 could be a marketing campaign or an event  
22 series or something like that.

23 So thinking about creative ways to  
24 use your stick of being able to do fines and  
25 cut those fines for folks if they're interested

1 or pushing or just require them to participate  
2 in some of these investor education campaigns.  
3 I think that would be an incredible  
4 opportunity, an incredible way to rebrand, not  
5 just the SEC, but also government more  
6 generally, and again say, government -- this  
7 business space, this investing space is for  
8 people like you, people who listen to DJ  
9 Khaled, people who read his book, people who  
10 follow him on Snap.  
11       You can have him potentially, you  
12 know, structure, you know, some kind of deal  
13 where you have posts across all of the social  
14 platforms, in addition to potentially creating  
15 some kind of content around investor education.  
16       So, again, I don't know if you have  
17 the latitude to do that, but if you do, as  
18 you're thinking about -- because there's all  
19 kinds of, of course, you know, fraudulent  
20 activity unfortunately in the IPO space, as  
21 you're thinking of other celebrities are  
22 participating, knowingly or unknowingly, but as  
23 you're thinking about other fines or other  
24 folks to go after, potentially involving them  
25 in investor education as a requirement of their

1 deal may be a good step in the right direction.

2 MS. MATTHEWS: And to add to that, I

3 think it's incredibly important to just be --

4 obviously, to be cautious about the IPO space.

5 There's a lot of legislation that's going to

6 have to move forward in order for us to

7 continue to utilize that type of capital, but

8 this has now scared the entire black tech

9 community and steered many away from utilizing

10 it at all.

11 I've seen the number of workshops

12 being offered go nearly to zero in the

13 crowdfunding space. It's just a little bit

14 buzz around one person, and then suddenly

15 there's a collapse in people utilizing

16 crowdfunding. So figuring out a way to

17 understand the right way to move forward, I

18 think would be incredibly important.

19 MR. MOSES: Thanks for that.

20 So, Falon, I wanted to check in with

21 you. We were talking before about, you know,

22 options and ways to reach people, but one thing

23 I wanted to make sure, I think about the time

24 that we heard from you about -- you know, what

25 is attractive about starting and funding a

1 business in Ohio and whether if you see women  
2 or minority entrepreneurs -- you mentioned the  
3 statistics maybe reflect in Ohio what we see  
4 nationally.

5 But what's attractive about Ohio, and  
6 do you see sort of parallels in terms of to  
7 other under-represented entrepreneurs  
8 nationally some of the benefits, right? So  
9 there's less competition.

10 There's potentially differences, you  
11 know, meaningfully differentiated ideas. We  
12 heard about in the last panel combining avocado  
13 toast and drones, but maybe there's some  
14 meaningfully different ideas that are here. Can  
15 you speak to any of those issues?

16 MS. DONAHUE: Yes. So the thing I  
17 like to talk the least about I think we should  
18 just get out of the way, and that's cost. It's  
19 obvious. It's very -- valuations are lower in  
20 Ohio. It cost much less to run a business in  
21 Ohio than it does in San Francisco.

22 On that note, it's getting really tough  
23 to even live in San Francisco. I mean, you're 30  
24 years old and you have nine roommates. You  
25 can't even get a dog. It's just tough.

1       And you come to Columbus, and you can  
2 have a house on the golf course and the whole  
3 nine yards. So, you know, it's just the  
4 quality of life. It's just the standard of  
5 living for yourself and for your team.

6       In Ohio, we also have better access.  
7 You know, we have incredible public, private  
8 partnerships. Jobs Ohio is a great example of  
9 that. You know, the corporate community is  
10 leaning in more so than ever before because  
11 they understand that a thriving startup  
12 community equals a thriving corporate  
13 community. They really feed off of each other,  
14 so it's really important for all of those  
15 sectors to continue to thrive.

16       I think Columbus in particular  
17 learned a lot of lessons when we went through the  
18 (Amazon) HQ2 process. And one of the things that really  
19 dinged us was our lack of tech talent in  
20 Columbus, Ohio. So continuing to support these  
21 startup companies in helping them grow will  
22 help the corporate community grow as well. So  
23 just getting the access.

24       You know -- as an example has a huge  
25 EIR team. That's entrepreneur in residence

1 team, and their sole job is to connect these  
2 entrepreneurs, these startup companies with  
3 corporations.

4 Here in Ohio, we just have greater  
5 access. If you want to go to a meeting with  
6 the CEO of a Fortune 500 company, you can. If  
7 you want to meet with Senator Brown or Senator  
8 Portman, you can. You know, they're very --  
9 they have an interest in helping our startup  
10 companies succeed.

11 Our legislators do round tables all  
12 the time to reach out, to understand what's the  
13 red tape that's keeping you from doing your  
14 job, and is there anything that I can do to  
15 help you advance your company and create jobs  
16 and keep them here in Ohio?

17 So as we continue to grow, we  
18 continue to grow our venture capital funds that  
19 can invest in global startup companies and keep  
20 them here. We're going to continue to see our  
21 cities continue to grow and thrive.

22 And we can think about this in an  
23 exclusive way. I think one of the beautiful  
24 things about being so young is that Cleveland  
25 and Cincinnati and Columbus and the other

1 cities can learn a lot of lessons from New York  
2 and San Francisco and other communities that  
3 have several years ahead of this, and we can  
4 think about inclusive economic development as  
5 we continue to grow.

6       You know, one thing -- when I think  
7 about how we can support more women and  
8 minorities in entrepreneurship, I think we can  
9 think about supporting women and minorities in  
10 venture capital and angel investing.

11       So how do we incentivize investors to  
12 invest in these new funds, because I can tell  
13 you it is so, so hard to raise a venture  
14 capital fund. And then you add a multiplier of  
15 being in Ohio, and then you add a multiplier of  
16 being a woman or being a minority, it is just  
17 almost impossible.

18       So how do you incentivize the people  
19 or the institutions with capital to invest in  
20 these new funds?

21       You know, the average fund size  
22 outside of the three main hubs is \$22 million.  
23 Sequoia filed a Form D a few months ago and  
24 became a \$6 billion fund.

25       If we can incentivize these venture

1 capital funds to not only have the capital, but  
2 have the experience and help train new venture  
3 capitalists who are interested in getting in  
4 this really amazing, but also very complex  
5 world.

6       If we can incentivize them to  
7 allocate just a portion of their capital to  
8 these new emerging funds and these new emerging  
9 ecosystems, I think that can be a win-win for  
10 all of us.

11       Because regardless if Silicon Valley  
12 supports Ohio or not, you know, we're going to  
13 win, because, you know, these are great  
14 entrepreneurs that are in it to win it. But if  
15 we could work together, I think that's a  
16 win-win for everyone.

17       MR. MOSES: Thank you. It looks like  
18 we've got a raised tentcard.

19       MS. TAPIA: I'll second what Falon  
20 mentioned. I lived in Atlanta for 15 years,  
21 right? We moved right down there right after  
22 the Olympics, and everything just kind of took  
23 off from there.

24       I saw the growth and the advancement  
25 of the city. I left there and moved up here to

1 Columbus, Ohio, because traffic sucked. Not  
2 just because of traffic, but I also wanted to  
3 start my business up here, and my family, so  
4 I decided to say, "Let's take an opportunity."

5 Those margins are better in Atlanta  
6 for very different reasons. The community here  
7 in Columbus and the State of Ohio is very  
8 embracing of new folks wanting to start  
9 businesses.

10 I had a gentleman, he -- I know a  
11 bunch of people who own cleaning companies,  
12 right, so we're all in this little like  
13 ecosystem where we help support each other on  
14 bids or letting each other know when specific  
15 things are coming out, or specific techniques.

16 Same thing on the consulting side of  
17 the house. It's -- the community here is very,  
18 very, very welcoming and open to entrepreneurs  
19 starting and advancing the specific market, so  
20 I'm with you.

21 MR. MOSES: Thank you for that.

22 So we had a question from the  
23 audience that I think maybe Candice is best  
24 placed to address.

25 So your -- so Hillman, your

1 accelerator, as we mentioned, provides \$100,000  
2 in initial funding, which is usually the first  
3 sort of non-friends and family capital that a  
4 business in your cohort receives; is that  
5 right?

6 MS. MATTHEWS: That's right. And  
7 typically they're not friends and family for  
8 women and minority like companies.

9 MR. MOSES: So this is the first  
10 money?

11 MS. MATTHEWS: First money.

12 MR. MOSES: And that's interesting.  
13 We had an event in San Francisco, and we had a  
14 female founder talking about some of these  
15 great things that you can often get to  
16 connections and resources and things, and they  
17 want those.

18 And as we heard on the last panel,  
19 maybe you don't need as much capital as you  
20 used to, but, you know, objectively for a  
21 software business, you need a lot less. But  
22 you do need some, right? So, you know,  
23 having -- starting them off with some  
24 investment is great.

25 But the question is what

1 opportunities and obstacles have you seen as  
2 these companies in your cohort go to the next  
3 round or the next level? Can you tell us about  
4 what considerations they faced or what success  
5 they've had moving beyond that initial \$100,000  
6 investment?

7 MS. MATTHEWS: So for many of them,  
8 it's the first time that they're raising,  
9 right? The first raise, getting into the  
10 accelerator is, it's me, an investment  
11 committee. We're making that decision, and  
12 there's sometimes comfort in investing in  
13 people who look like you and you know, like,  
14 and trust them.

15 They then have to go to my network or  
16 their own network, which is sometimes limited,  
17 right, and so that's kind of hurdle number one.

18 In the Midwest, you know, we're  
19 dealing with smaller kind of valuations, but  
20 we're also dealing with smaller rounds. And so  
21 when they go outside of the State of Ohio and  
22 they're raising these smaller rounds, they're  
23 kind of looked at, and people think, well,  
24 that's not enough money. Well, in the Midwest,  
25 it is enough money. So they're running up

1 against that hurdle.

2       You know, they aren't always hitting  
3 those milestones that are necessary. And so  
4 learning the language necessary to get to the  
5 next level is sometimes what we are all  
6 missing.

7       You know, I said earlier today there  
8 was some Greek being spoken up here, but once I  
9 learned the language, it worked for me. Just  
10 like when we launched Hillman, I had  
11 qualitative data and not quantitative data.  
12 It's all in learning the right language to get  
13 where you need to go next, and many of them  
14 don't know the language necessary to grow into  
15 a larger round.

16       So I think that at the pre-seed  
17 level, yes, it's working, but we don't have the  
18 language necessary, and I hate to use and say  
19 it's not sophisticated enough, but it isn't yet  
20 sophisticated enough to get them to another  
21 level.

22       We need more people in that space,  
23 still, because if we have a limited number of  
24 people who are investing and are kind of  
25 pulling out their own biases and make those

1 investments, at least here in the Midwest. It  
2 may not be happening the same way other places,  
3 but if you look at the numbers, it kind of is.

4 MR. MOSES: And what can you tell us  
5 about your first cohort, either, you know,  
6 individual companies or sort of an aggregate?  
7 You brought three companies in. You've  
8 graduated them. Presumably, you're sharing  
9 with them, you know, some of this information  
10 they need to be sophisticated enough to have  
11 that next round. What can you tell us about  
12 what you've experienced?

13 MS. MATTHEWS: Our first three  
14 companies, we had a fin tech company, medical  
15 device, and a healthcare software. Those three  
16 companies have created 28 jobs and have raised  
17 \$4 million, and they're on track to make \$5  
18 million of revenue this year.

19 There was a \$178,000 operating budget at  
20 Hillman year one, and \$300,000 invested in  
21 those companies. We got really far with less  
22 than half a million dollars. If you look at  
23 where they'll be with revenue, that's actually  
24 an amazing return.

25 MR. MOSES: And so what's next?

1 CHAIRMAN CLAYTON: John, can I just jump

2 in here?

3 MR. MOSES: Please.

4 CHAIRMAN CLAYTON: I spend a lot of time

5 with a lot of sophisticated people. Candice,

6 you have no language gap. I would want you on

7 my team.

8 MS. MATTHEWS: If somebody filmed

9 that, I would really appreciate that.

10 MR. MOSES: So money talks, right?

11 Thanks for sharing that.

12 So your accelerator is focused on

13 this particular -- you know, focused on Ohio

14 and women and minorities.

15 Brandon, we've seen a huge

16 proliferation of these different organizations

17 like we've talked about. Do you feel like that

18 is making a difference? There is a huge

19 number -- you mentioned your network. So

20 there's events like Afro Tech, Black

21 Founders, Culture Shift.

22 On the VC side, which you mentioned,

23 Falon, to support the actual investors, there's

24 groups like All Raise, which is focused on

25 female venture capitalists.

1 Do you see any of that -- first of  
2 all, does that feel different to you, Brandon,  
3 over the last couple of years? And is it  
4 actually making a difference, or is it -- is  
5 there something still that's really missing? Is  
6 it time or a different focus that needs to take  
7 place?

8 MR. ANDREW: Yes. So it definitely  
9 feels different. I think back to the first  
10 year that we did a nationwide casting tour for  
11 Shark Tank focused on finding more diverse  
12 ideas, making sure every sector in the economy  
13 is represented, but also focused on finding  
14 more diverse voices, so making sure that the  
15 diversity of the audience watching at home was  
16 reflected in the entrepreneur's  
17 pitching on the show.

18 But thinking back to the first year,  
19 there were organizations around the country;  
20 however, there certainly weren't as many  
21 organizations around the country working with  
22 females and diverse entrepreneurs, whether  
23 they're Latinx, or African-American, or  
24 native or Asian-Pacific, they just weren't  
25 there.

1        So I think the proliferation is a  
2 great thing; however, we definitely need to do  
3 more. And just to level set here, I'm sure  
4 most of the folks -- just because of the  
5 audience here, are familiar with economic  
6 dynamism, with the fact that the more small  
7 businesses are started and the more capital  
8 that they're raising, the more dynamic the  
9 elasticity of the economy comes.

10        So the greater potential it has to be  
11 able to grow and expand, just like a rubber  
12 band. And the less businesses that are  
13 started, the less capital flows around, and so  
14 that dynamism shrinks. And so if you think  
15 about a rubber band shrinking, it helps them  
16 becoming partners. It's harder for the economy  
17 to expand over time.

18        The reason why I'm investing in  
19 diverse entrepreneurs is important, not only  
20 for the SEC through investor education, et  
21 cetera, and other resources, but important for  
22 the economy, is because there's a significant  
23 gap in terms of business formation and business  
24 ownership.

25        In the United States, nearly 70

1 percent of businesses in the US are owned by  
2 one group, which is white men, and 30 percent  
3 are owned by everyone else. And there's a  
4 delta between the number of businesses that are  
5 being started by white men and the number of  
6 businesses that are being started by everyone  
7 else.

8       And if -- as the nation becomes more  
9 diverse, as the nation becomes majority  
10 minority, if these diverse entrepreneurs of  
11 small business formation don't catch up, if  
12 that delta remains, then it can have a really  
13 significant deleterious effect on the U.S.  
14 economy, on the ability of the economy to have  
15 that dynamic potential, to have that economic  
16 dynamism that is really necessary for the  
17 economy to be healthy.

18       And so, yes, having more  
19 accelerators, having more incubators, having  
20 more conversations like this, even having more  
21 meetup groups with diverse entrepreneurs, all  
22 of those things are helping move the ball  
23 forward; however, what we need to do is take  
24 the models that are successful, like Hillman,  
25 like Candice's, and throw some gasoline on that

1 fire.

2 And I think investor education,  
3 entrepreneur education through the SEC could  
4 certainly be part of it, but also potentially  
5 the SEC connecting with other agencies. So  
6 with the Minority Business Development Agency,  
7 with the SBA.

8 I'm even connecting with members on  
9 the Hill. Ms. Lisa Blunt Rochester in the House and  
10 Cory Booker came out with the SOAR Act earlier  
11 this year that specifically targets sending  
12 resources to diverse accelerator programs and  
13 diverse incubators around the country.

14 It hasn't moved forward for a variety  
15 of reasons, but doing things like that that  
16 take models that are working throws gasoline on  
17 them, so that their impact can expand and so  
18 that we can close that gap in terms of small  
19 business formation and make sure that our US  
20 economy is dynamic and has the full potential  
21 in the future.

22 It's not only critical for the  
23 communities that are represented on this panel  
24 and affected here, it's really critical for the  
25 US economy as a whole if we want to be

1 competitive going into the future.

2       So, yeah, definitely great to see the

3 proliferation, but we definitely need to find

4 more ways to support those organizations going

5 forward.

6       MR. MOSES: Thank you very much. That seems

7 like a great note to end on, but first I want

8 to make sure that any of the Commissioners or

9 Chairman Clayton has any questions.

10       COMMISSIONER PEIRCE: I just want to

11 thank you all. It's exciting to hear about you

12 all talking about just how every community is

13 full of people with great ideas, and we just

14 need to find a way to make sure that our

15 capital is getting to those people with great

16 ideas, and it can really transform those

17 communities.

18       So thank you for shedding light on

19 that topic for us today.

20       COMMISSIONER JACKSON: The one

21 thing I'll add is just following up on

22 Commissioner Peirce's, her comments, and the

23 Chairman's comments, is one of the things I

24 learned today hearing from all of you is the

25 degree to which young businesses rely on

1 relationships, conversations, connections among  
2 people to fuel the businesses that are growing  
3 in our economy.

4 And that's why I think it's just so  
5 important, and I am so grateful to the Staff, the  
6 Chairman, to Director Hinman, to their  
7 leadership in bringing this conversation  
8 together.

9 Because these are the kinds of  
10 discussions, I think, that offer ideas for us,  
11 but not only us, this community. The people  
12 who are interested in investing and growing  
13 those businesses.

14 This is fuel for the fire, so to  
15 speak, to help this effort continue to grow.  
16 I'm grateful to all of you for sharing those  
17 ideas and to the staff for organizing all of  
18 this, so thank you very much.

19 CHAIRMAN CLAYTON: John, thank you.  
20 Thank you very much, John. Thank you to the  
21 panelists. And to follow up on what  
22 Commissioner Jackson said, you've sparked some ideas  
23 in my head, but I was trying to think of more  
24 than just ideas.

25 MR. MOSES: Thanks very much.